BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

JOINT APPLICATION OF
THE DAYTON POWER AND LIGHT COMPANY AND
WRIGHT-PATTERSON AIR FORCE BASE
FOR APPROVAL OF
A UNIQUE ARRANGEMENT

CASE NO. 11-1163-EL-AEC

DIRECT TESTIMONY

OF DONA SEGER-LAWSON

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

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Dona R. Seger-Lawson. My business address is 1065 Woodman Drive, Dayton, Ohio 45432.

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

A. I am employed by The Dayton Power and Light Company ("DP&L" or the "Company") as Director, Regulatory Operations.

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

A. I assumed my present position on August 25, 2002. Prior to that time, I held various positions in the Rates/Pricing Services/Regulatory Operations division, my most recent prior position being that of Manager, Regulatory Operations, beginning in February 2001.

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

A. I have overall responsibility for all base rate development, for both retail and wholesale electric rates, as well any retail rate riders including the recently implemented retail fuel rider. I am responsible for evaluating regulatory and legislative initiatives, and regulatory commission orders that affect the Company's retail and wholesale rates and overall regulated operations. I report to the Senior Vice President and General Counsel.

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

A. I received a Bachelor of Science degree in Business Administration with majors in Finance and Management from Wright State University in Dayton, Ohio in 1992. I achieved a Master in Business Administration with a Finance Administration concentration also from Wright State University in August of 1997. I have been employed by DP&L in the Regulatory Operations division since 1992.

Q. Have you previously provided testimony before the Public Utilities Commission of Ohio ("PUCO" or "Commission")?

A. Yes. I have sponsored testimony in Case No. 99-220-GA-GCR; Case No. 00-220-GA-GCR; DP&L's Electric Transition Plan, Case No. 99-1687-EL-ETP; DP&L's Extension of the Market Development Period Case No. 02-2779-EL-ATA; in Opposition to the Complaints in Cases Nos. 03-2405-EL-CSS, and 04-85-EL-CSS; in the Company's Rate Stabilization Period Case No. 05-276-EL-AIR; in the Company's Electric Security Plan Case No. 08-1094-EL-SSO; and in support of the Caterpillar Unique Arrangement in Case No. 10-734-EL-AEC.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to describe the development of the economic development incentives embodied in the Unique Arrangement ("Unique Arrangement" or "Contract") between Wright-Patterson Air Force Base ("WPAFB" or "Wright-Patt") and DP&L. I will describe the terms of the Contract and explain why it is reasonable and does not violate the provisions of O.R.C. §4905.33 and O.R.C. §4905.35. I will also describe the significance of WPAFB within the Miami Valley region and the job retention and creation the Unique Arrangement is designed to foster. I will then discuss how this Contract furthers the policy of the State of Ohio. Finally, I will discuss the expected delta revenues associated with this Unique Arrangement and DP&L's proposed recovery of those delta revenues.

II. REASONABLENESS OF THE ARRANGEMENT

Q. Please describe the specific discount structure in the Unique Arrangement?

A. The term of the Unique Arrangement runs through December 31, 2011, with options to extend the term at the sole discretion of WPAFB, but the total duration of the contract will not exceed 42 months. Generally, Wright-Patt will take service under DP&L's approved Distribution, Transmission and Generation rates and all additional riders less 10% on the Base's Existing Load of approximately 69 MW, and less 25% on all New Load, which is projected to be approximately 20 MW. This Unique Arrangement is also subject to terms that require, among other things, WPAFB to provide a required annual report to DP&L and Commission Staff which complies with the requirements of O.A.C. §4901:1-38-06. In addition, this Unique Arrangement contains a unilateral right to terminate at the convenience of WPAFB, as well as multiple incorporated government clauses consistent with the Federal Acquisition Regulations and Defense Federal Acquisition Regulations.

Q. Please describe the Company's approach to developing the incentive package ultimately offered to WPAFB?

A. Using the projected load growth provided by WPAFB, DP&L designed the package to reflect both a retention component and a growth incentive component. The 10% discount on Existing Load was designed to encourage job retention by creating a climate of price predictability and continuation of existing economic conditions at WPAFB, while the 25% discount on New Load was designed to incent new growth and jobs at the Base.

Q. Is the arrangement between WPAFB and DP&L just and reasonable?

A. Yes, it is.

Q. Why?

A. As I will describe in more detail below, this arrangement is designed to foster the creation and retention of jobs in Ohio and the Miami Valley region. It is structured to ensure that economic conditions which encourage job growth and retention exist at WPAFB by maintaining a long-term, reliable supply of electric generation, transmission, and distribution service at reasonable and predictable prices for use at the facility. The arrangement provides this reliability and predictability but does not violate the provisions of O.R.C. §4905.33, in that it takes effect only upon approval by the PUCO, consistent with O.R.C. §4905.31 and the laws governing unique arrangements, and does not provide free service or service for less than actual cost to WPAFB. Further, the arrangement is consistent with O.R.C. §4905.35 in that it does not create an unreasonable advantage for WPAFB, nor does it subject any other person or entity to any undue prejudice of disadvantage. It represents a balanced approach that will ultimately create and retain jobs, which will benefit all ratepayers in the region and Ohio as a whole.

Q. Please describe your expectations with respect to job creation and retention associated with this Unique Arrangement?

A. WPAFB is Ohio's largest single-site employer, employing more than 27,000 people who live and work within the Dayton region. According to the most recent economic impact analysis developed and issued by Wright-Patt, the Base contributes over $1 billion in direct and indirect payrolls and over $5 billion in total economic impact in the State of Ohio. During 2010 and through 2011, it is estimated that approximately 1,200 new full-time jobs will be created at WPAFB. This is as a result of the Base Realignment and

Closure Act of 2005 (“BRAC”), which creates incentives to consolidate operations from around the nation into fewer locations to optimize military readiness and ensure the best use of limited defense dollars. This Unique Arrangement is designed to encourage retention and additional expansion associated with future BRAC initiatives by maintaining a favorable economic climate in the Dayton region.

Q. Please describe the types of jobs which are expected to be created or retained in connection with the BRAC process.

A. Many of the jobs created will be highly-skilled. For example, the Air Force Research Lab (AFRL) projects a need to hire an additional 275 people over the next 18 months in technology-related positions. Of these 275 AFRL positions, approximately 1/3 of them will require candidates with bachelor’s degrees, 1/3 will require candidates with master’s degrees, and 1/3 of the AFRL positions will require candidates that have achieved PhDs. The lab will also be hiring approximately 100 college interns. The average salary associated with these new jobs is estimated to be $74,650.

Q. Will there be other financial impacts to the region flowing from the job retention and growth at WPAFB?

A. Yes.

Q. Please describe these expected impacts.

A. The BRAC process has positive economic effects on local and regional Ohio businesses, enhancing opportunities for local area businesses and individuals ranging from major equipment vendors to construction crews, to maintenance workers and even area restaurants and stores. For example, a Riverside, Ohio defense contractor was awarded a five-year, $2.9 million contract to support an information center located at WPAFB. A Beavercreek, Ohio defense contractor has won two multi-year deals related to research and development that are worth approximately $75 million.

Q. Does the BRAC process create the potential for the creation of even more jobs at WPAFB in the coming years?

A. Yes. The purpose of BRAC is to enable the Department of Defense to realize greater efficiencies and promote transformation by realigning infrastructure with future defense strategy. BRAC 2005 is the fifth realignment and closure proposal since the realignment process was created in 1988. Creating and maintaining a cost-effective economic climate at WPAFB is critical to ensuring the region is well positioned to not only withstand, but thrive in future BRAC processes. This Unique Arrangement will support Ohio's effort to create such a predictable, cost-effective, consolidation-friendly climate. The next BRAC process could potentially begin in 2014-2015.

III. FURTHERS THE STATE POLICY EMBODIED IN O.R.C. §4928.02

Q. Does the Unique Arrangement between DP&L and WPAFB further the policy of the state embodied in Section 4928.02 of the Ohio Revised Code?

A. Yes. This Unique Arrangement, which is designed to foster the growth and retention of jobs in Southwest Ohio and resulting wages and tax revenues, facilitates the State's effectiveness in the global economy. Furthermore, the Contract encourages the implementation of energy efficiency measures, also in furtherance of the policy embodied in R.C. §4928.02.

IV. DELTA REVENUE RECOVERY

Q. Under the Unique Arrangement between DP&L and WPAFB, does DP&L bear the risk of WPAFB shopping for an alternative generation supplier?

A. Yes. Under Section 8.1 of the Unique Arrangement, Wright-Patt may terminate the Contract at any time for its sole convenience, which would include for the purpose of switching generation service to a competitive retail electric service provider.

Q. Given that DP&L bears the risk of WPAFB terminating the Contract possibly for the purpose of taking generation service from an alternative generation supplier, what is DP&L's position with respect to recovery of delta revenues associated with the incentives provided to WPAFB under the Unique Arrangement?

A. It is DP&L's position that the Company should be permitted to recover one hundred percent of the costs associated with the Unique Arrangement, which would include all of its revenue foregone as a result of this Unique Arrangement—including the POLR portion of those revenues. The inclusion of the Termination for Convenience Clause in this Unique Arrangement was a non-negotiable requirement included in the Contract by WPAFB. In addition, unlike other economic development arrangements involving fairly lengthy terms locking the customer into the regulated standard service offer, the term of this Unique Arrangement runs only from the date of approval through December 31, 2011. While the Contract contains annual options for WPAFB to extend the term of the Contract for additional 12 month terms up to a total of 42 months, those are unilateral options held by WPAFB. For that reason, there is a risk that WPAFB may shop for competitive generation and later seek to return to POLR service. DP&L should therefore be permitted to recover full delta revenues—the difference between what WPAFB is charged according to this Unique Arrangement and DP&L standard offer tariff rates.

Q. Through what mechanism does DP&L seek recovery of the costs associated with this Unique Arrangement?

A. DP&L proposes to recover the costs in connection with the arrangement with WPAFB through DP&L's existing Economic Development Rider ("EDR"), already approved in its ESP proceeding, Case No. 08-1094-EL-SSO.

Q. What is the projected annual discount to WPAFB associated with the Unique Arrangement?

A. The annual discount will vary based on Wright-Patt's actual electricity consumption, energy efficiency initiatives, load growth, timing and DP&L's tariff rates. Based on Wright-Patt's 2010 billing determinants, adjusted for load growth and energy efficiency results, applying DP&L current rates effective June 1, 2011, DP&L estimates delta revenues to be approximately $4.7 M per year over the term on the Unique Arrangement.

Q. Assuming WPAFB does not exercise its right to terminate the arrangement, and it remains in effect for 42 months, what do you estimate the total delta revenue associated with the arrangement to be?

A. Assuming the Contract starts July 1, 2011 and runs through December 31, 2014, the Company estimates the delta revenue to be approximately $16.6 M over the potential 42 month term.

Q. Do you intend to collect that entire amount through the Economic Development Rider?

A. Yes.

Q. Over what period of time to you intend to seek recovery of the delta revenues associated with this Unique Arrangement?

A. DP&L will be making a separate filing to adjust the Economic Development Rider from its current level of zero, to a rate that will reflect this and other PUCO-approved economic development arrangements in the near future.

Q. What is the typical bill impact of the delta revenue recovery for a residential customer using 750 kWh/month for this Unique Arrangement?

A. Although the Economic Development Rider has not yet been calculated, based on recovery rate of $4.7 M per year, DP&L estimates that a typical residential customer that uses 750 kWh per month would experience a total bill impact of approximately $0.37 per month.

Q. Does DP&L's recent purchase of the WPAFB distribution system have any impact on the delta revenue the Company will be seeking to recover associated with this Unique Arrangement?

A. No. The distribution system purchase and this economic development Unique Arrangement have no impact on one another whatsoever. Both prior to the distribution system purchase and subsequent to the purchase, WPAFB was and is a high voltage customer with two metering points, taking service under DP&L Tariff Sheet D22.

Separate from its tariffed distribution charges, WPAFB pays a distribution special contract rate for DP&L owning, operating and maintaining the WPAFB distribution system. That distribution special contract rate in no way impacts the tariffed distribution rate charged to WPAFB and further, does not affect the distribution rate paid by any other customer on DP&L's system. The distribution special contract rate is not part of the economic development discount being offered to WPAFB through this Unique Arrangement and therefore it does not serve to increase nor decrease the delta revenues associated with this Unique Arrangement.

V. CONCLUSION

Q. Please summarize your testimony.

A. In summary, DP&L believes the Wright-Patt Unique Arrangement is reasonable, cost-effective and promotes the State Policy. Customers and residents in the Dayton region benefit from the 27,000 jobs currently at the base and the indirect jobs supporting the Base missions. The region will benefit from the 1200 new full time jobs that are coming to the Base. The State of Ohio benefits from job retention, job growth, and tax base this Unique Arrangement provides. DP&L respectfully requests the Commission to approve the Unique Arrangement as filed and find that the total cost of the Unique Arrangement is recoverable through the Company's Economic Development Rider.

Q. Does this conclude your direct testimony?

A. Yes, it does.