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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Market Rate Offer.	)))	Case No. 12-426-EL-SSO
In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs.	)))	Case No. 12-427-EL-ATA
In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority.	))))	Case No. 12-428-EL-AAM
In the Matter of the Application of The Dayton Power and Light Company for Waiver of Certain Commission Rules.	)))	Case No. 12-429-EL-WVR
In the Matter of the Application of The Dayton Power and Light Company to Establish Tariff Riders.	)))	Case No. 12-672-EL-RDR

DIRECT TESTIMONY OF J. EDWARD HESS
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO
[PUBLIC VERSION]

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I. INTRODUCTION

Q1. Please state your name and business address.

A1. J. Edward Hess, 21 East State Street, 17th Floor, Columbus, Ohio 43215

Q2. By whom are you employed and in what position?

A2. I am a Technical Specialist for McNees Wallace & Nurick LLC ("McNees"), providing testimony on behalf of Industrial Energy Users-Ohio ("IEU-Ohio"). IEU-Ohio is an association of commercial and industrial customers and functions to address issues that affect the price and availability of energy its members need to operate their Ohio plants and facilities.

Q3. Please describe your educational background.

A3. I received a Bachelor of Business Administration degree from Ohio University in 1975 majoring in accounting. I completed the majority of Capital University's Master of Business Administration program and I have completed many regulatory training programs. I am a certified public accountant.

Q4. Please describe your professional experience.

A4. I have been employed by McNees since October 2009. In March 2009, I retired from the Public Utilities Commission of Ohio ("Commission") after 30 years of employment. My last position with the Commission was as the Chief of the Accounting and Electricity Division of the Utilities Department. My duties included ensuring statutory compliance with state and federal laws, rules, regulations, and procedures governing utility regulation with the majority of that responsibility in the electric industry. I was also responsible for the operating income and rate base portions of base rates and general accounting matters in all of the utility industries.

Q5. Have you previously testified before the Commission?

A5. As part of my responsibilities as a Commission employee, I have provided expert testimony in numerous Commission proceedings. I began testifying in the early 1980's. More recently I provided written testimony in Case Nos. 09-872-EL-FAC and 09-873-EL-FAC, 10-2929-EL-UNC, 11-351-EL-AIR and 11-352-EL-AIR, and 11-346-EL-SSO, *et. al.* on behalf of IEU-Ohio.

Q6. What documents did you review before determining your recommendation?

A6. I have reviewed the Application for an Electric Security Plan ("ESP") as well as the Second Revised Application in this case. My review included the supporting documents and testimony filed with these applications and responses to interrogatories. I have also recently reviewed testimony, stipulations and Opinion and Orders filed in Case Nos. 99-1687-EL-ETP, *et al.* (the Electric Transition Plan or "ETP"), 02-2779-EL-ATA, *et al.* (the Rate Stabilization Plan or "RSP"), 05-276-EL-AIR (Rate Stabilization Surcharge or "RSS") and 08-1094-EL-SSO, *et al.* ("ESP I") and I reviewed the Staff Report published in Case No. 10-1468-EL-UNC (the corporate separation plan proceeding).

II. PURPOSE OF THE TESTIMONY

Q7. What is the purpose of your testimony?

A7. I recommend that the Commission not approve either the proposed Service Stability Rider ("SSR") or the proposed Switching Tracker ("ST") because the financial integrity claims that DP&L provides as justification for the necessity of the SSR and ST are based on a total company financial analysis that includes generation and transmission costs and investments, rather than a focused analysis based upon DP&L's electric distribution business. The proposed SSR and ST rates are designed to provide DP&L an anticompetitive subsidy that allows the electric distribution utility ("EDU") to favor its owned or controlled competitive assets or affiliated lines of competitive business which I understand to be a violation of corporate separation law and rules, and contrary to Ohio's policies. This recommendation is also supported by the testimony of IEU-Ohio witnesses Kevin M. Murray and Joseph G. Bowser.

I further recommend that the Commission not approve either the SSR or the ST because they amount to an untimely request for transition revenue. DP&L was provided an opportunity by statute to request the recovery of generation-related transition revenue; that issue was resolved by a Commission-approved stipulation, and DP&L has recovered all allowable transition costs authorized through those stipulations. Additionally, the period during which transition revenue could be requested and collected ended long ago.

III. SERVICE STABILITY RIDER AND SWITCHING TRACKER

Q8. Will you describe DP&L's request for an SSR?

A8. DP&L, the EDU, is seeking Commission approval to recover $137.5 million per year through a non-bypassable charge levied on <u>all distribution customers</u> for the term of the proposed ESP (2013-2017). DP&L claims that the approval of the SSR is appropriate to allow it to maintain a total company return on equity ("ROE") that it says is in line with comparable firms' ROEs. DP&L claims the SSR is necessary to protect its total company financial integrity. That claim is based upon projected earnings for DP&L as though it is still a vertically integrated utility company that includes the generation function,[1] the transmission function and the distribution function.

Q9. Will you describe the ST?

A9. As proposed, the ST is also a non-bypassable charge assessed to all distribution customers that will compensate DP&L for the lost generation revenue from customers that choose to shop after August 30, 2012. According to the testimony of DP&L witness Craig L. Jackson, the lost generation revenue will be calculated by multiplying the switched customer load after August 30, 2012 times the price difference between the blended standard service offer ("SSO") price and the competitive bid process ("CBP") price in effect at the time of the computation. According to witness Jackson, this lost generation revenue will be recognized in a deferred regulatory asset account that will accrue a carrying cost equal to the embedded cost of long-term debt. The collection and amortization of this deferred generation revenue will begin January 1, 2014 and continue until the deferred balance is amortized through the cash payments made by all distribution customers.

Q10. Has DP&L identified why it is necessary to recover the SSR revenues and ST revenue from all of its distribution customers?

A10. The testimony of DP&L witness William J. Chambers identifies the loss of generation and transmission revenue as the reason for this request.[2] Mr. Chambers' recommendation is based on a financial review that includes the

[1] DP&L uses the description "unit" in some of its documents to describe these separate business functions.

[2] Second Revised Direct Testimony of William J. Chambers at 25 of 59 (December 12, 2012).

combined generation function, the transmission function, and the distribution function.

IV. CORPORATE SEPARATION

Q11. Will you briefly describe the role of the SSO ~~as~~ part of Ohio's electric restructuring and adoption of a "customer choice" regulatory model?

A11. With the enactment of Amended Substitute Senate Bill 3 ("SB 3") in 1999, the structure of the vertically integrated industry changed significantly in part to break the link between ownership and control of assets within such an industry structure. With regard to competitive retail electric service such as generation supply and effective January 1, 2001, the EDU was confined to the role of a default supplier to customers not receiving competitive service from a competitive retail electric service ("CRES") provider. This default supplier status currently allows the EDU to obtain market-based or tested compensation for default supply SSO through the ESP or the market rate offer ("MRO") options.

In addition to the default supply role of an EDU, SB 3 imposed numerous requirements on an EDU to make sure that retail customers as well as CRES providers are not subjected to an EDU's discretion in ways that would allow the EDU to favor its owned or controlled assets or affiliated lines of business. I do not believe that these requirements can be ignored. When taken into consideration, these requirements act as barriers to the type of proposals that DP&L is advancing in these proceeding. In 2008, Amended Substitute Senate Bill 221 ("SB 221") altered the means by which an EDU could be compensated for its default generation supply service, but SB 221 did not change the core elements of the electric restructuring architecture contained in SB 3 and specifically the requirements that an EDU cannot operate to favor its non-regulated affiliates or use its non-competitive lines of business to provide anticompetitive subsidies to its competitive lines of business.

Q12. Has Ohio adopted laws and regulations governing the relationship between a regulated EDU and its affiliates providing competitive services?

A12. I am advised by counsel that Section 4928.17, Revised Code, requires a corporate separation plan and defines many of the requirements of that plan. I am also aware that the PUCO adopted rules for these plans originally as a part of the standard filing requirements for electric transition plans [Rule 4901:1-20-16, Ohio Administrative Code ("O.A.C")] and later adopted a more permanent set of rules (Rule 4901:1-37, O.A.C.).

Q13. Will you explain the Ohio restrictions?

A13. SB 3 required the vertically integrated utility companies to unbundle generation, transmission, and distribution services and operate under corporate separation plans to maintain walls between competitive and non-competitive services including a Code of Conduct. These separation plans were filed as a part of the ETP as required by Section 4928.17, Revised Code, and in the format required by Rule 4901:1-20-16, O.A.C. The purpose of the corporate separation plan was described in the filing requirements for the ETP under Rule 4901:1-20-16(A), O.A.C., which states:

> Purpose and scope Electric utilities are required by section 4928.17 of the Revised Code, to file with the commission an application for approval of a proposed corporate separation plan.

> The rule provides that all the state's electric utility companies must meet the same standards so a competitive advantage is not gained solely because of corporate affiliation. This rule should create competitive equality, preventing unfair competitive advantage and prohibiting the abuse of market power. Generally, this rule applies to the activities of the regulated utility and its transactions with its affiliates. However, to ensure compliance with this rule, examination of the books and records of other affiliates may be necessary. Compliance with paragraph (G)(4) of this rule shall begin immediately. Compliance with the remainder of this rule shall coincide with the start date of competitive retail electric service, January 1, 2001, unless extended by commission order for an electric utility pursuant to division (C) of section 4928.01 of the Revised Code.

Q14. As you understand it, did SB 3 require the vertically integrated electric utilities to structurally separate the unbundled functions of the utility?

A14. Yes. That is my understanding. It is generally referred to as legal separation. However, it is also my understanding that the Commission had some ability to permit the use of functional separation on an interim basis until structural separation could be completed. Nonetheless, any use of functional separation still had to provide for ongoing compliance with the policy specified in Section 4928.02, Revised Code, and meet other requirements of SB 3 and the Commission's rules.

Q15. When establishing the SSO, should legal separation and functional separation be treated any differently?

A15. No. Functionally separated companies should be held to the same standards as a legally or structurally separated company. As stated in the separation rule above, "The rule provides that all the state's electric utility companies must meet the same standards so a competitive advantage is not gained solely because of corporate affiliation."[3] Additionally, it is my understanding that the definition of affiliates in the corporate separation rules includes business functions of the same company.[4] It is also my understanding that the Commission's rules explicitly hold DP&L's business functions to the same rules as affiliates. Separate accounting of the distribution, transmission, and generation functions is required, communication between these functions should be at arm's length, and there should be no competitive advantage provided to the competitive generation business by the non-competitive business functions (distribution and transmission).

Q16. Did DP&L file a corporate separation plan with its ETP filings?

A16. Yes. The plan was originally filed in its ETP case (Case Nos. 99-1687-EL-ETP, *et al.*). The final version was filed on February 28, 2000 and was eventually supported by DP&L witness Timothy G. Rice. DP&L's proposed corporate separation plan was approved by the Commission as part of the ETP settlement.

Q17. Did the original corporate separation plan include a plan to move the generation assets to an affiliated subsidiary?

A17. No. The original plan was to move the distribution and transmission assets to one or more direct subsidiaries of DPL Inc. The plan allowed DP&L to continue to own and operate the generation assets and businesses as an exempt wholesale generator pursuant to the Public Utilities Holding Company Act of 1935.

[3] Rule 4901:1-20-16(A), O.A.C.

[4] Rule 4901:1-37-01(A), O.A.C.

Q18. Did DP&L implement the plan as proposed?

A18. No. DP&L did not legally separate its business units according to the plan. However, DP&L was still subject to the requirements of functional separation.

Q19. Has DP&L updated its corporate separation plan?

A19. Yes. As a part of its first ESP plan (Case Nos. 08-1094-EL-SSO, *et al.*), DP&L filed an updated corporate separation plan. The plan was filed as a part of its application and was supported by the testimony of DP&L witness Timothy G. Rice. DP&L agreed, as a part of the stipulation in that case, that its employees and representatives would not have the discretion to act in a manner that was inconsistent with the Commission's corporate separation rules or DP&L's Second Amended Corporate Separation Plan. The stipulation was approved by the Commission.

DP&L has proposed to update its corporate separation plan and has requested that the Commission approve the plan (Third Amended Corporate Separation Plan) in an order accepting DP&L's ESP. DP&L submitted the testimony of Timothy G. Rice in support of the Third Amended Corporate Separation Plan. Mr. Rice describes the changes to the Third Amended Corporate Separation Plan as non-substantive and limited to reflect DPL Energy Resources' ("DPLER") acquisition of MC Squared and the acquisition of DPL Inc. by AES Corporation.

Q20. What support has DP&L provided for approval of the SSR and ST?

A20. DP&L presented the testimony of witness William J. Chambers in support of the proposed SSR and ST. Dr. Chambers evaluated the projected financial condition of DP&L's combined generation function, transmission function and distribution function based on a set of assumptions and forecasts. His evaluation was for the period 2013 through 2017. He concluded that the SSR is important to maintain DP&L's financial integrity (even with no additional switching) and that the ST is critical to reduce the financial impact of increased customer switching. He made no attempt to quantify which business function is at risk or responsible for the decline in financial integrity. However, in his testimony Dr. Chambers identifies the loss of generation and transmission revenue as the factor that is expected to create financial risk and drive DP&L's proposed SSR and ST. DP&L has admitted that the SSR and the ST may provide compensation for generation function costs.[5]

Q21. Should the financial integrity of DP&L's transmission business impact the EDU's proposed SSO?

A21. No. It is my understanding that DP&L's transmission rates remain subject to cost-based economic regulation under the supervision of the Federal Energy Regulatory Commission ("FERC"). To the extent that a lack of transmission revenue is negatively affecting DP&L's financial performance, it may seek an increase in transmission rates from FERC at any time. It is my understanding that Ohio law requires the Commission to pass through any FERC-approved transmission charges to customers that obtain transmission service from DP&L. Therefore, I believe it is inappropriate to consider the financial performance of DP&L's FERC-regulated transmission business segment for purposes of

[5] Attachment A (DP&L's Responses to IEU-Ohio's First Set of Interrogatories, Requests for Production of Documents, and Requests for Admission, October 23, 2012, ESP INT 1-39).

potentially subjecting all distribution customers to non-bypassable charges unrelated to the distribution function.

Q22. Should the financial integrity of DP&L's generation business impact the EDU's proposed SSO?

A22. No. Increasing revenues to offset lost generation revenue of the generation business segment or function would be a misuse of the EDU's status and responsibility as the SSO default supplier, and would unlawfully subsidize its generation functions. It is my understanding that this is in direct violation of Ohio statutes and Commission rules. Additionally, this result would be inconsistent with the policies of the State of Ohio.[6]

Q23. Did DP&L make any attempt to separate the financial impact of the distribution, transmission, and generation functions in this proceeding?

A23. No. DP&L did not provide financial information by business function either in its application or when asked, through discovery, by several different parties in several different ways. IEU-Ohio requested functionally separated accounting information in its first set of interrogatories but used the term "segment" which DP&L stated was unclear.[7] DP&L did provide its Business Unit Report for the years 2009-2010 when asked specifically about the distribution function. However, DP&L stated that it discontinued maintenance of these reports and that the financial results of the report were not exact and could not be relied upon to

[6] Section 4928.02(H), Revised Code.

[7] Attachment B (DP&L's Responses to IEU-Ohio's First Set of Interrogatories, Requests for Production of Documents, and Requests for Admission, October 23, 2012, ESP INT 1-21 and ESP INT 1-22).

produce accurate results.[8] DP&L stated that the Business Unit Reports were discontinued due to DPL being purchased by AES.[9] DP&L was also asked to provide both actual[10] and projected[11] ROE results for its generation, transmission and distribution business segments for the years 2009-2017. DP&L responded that the ROEs for the segments identified are not available. IEU-Ohio asked which business unit would ultimately realize the SSR and the ST revenue.[12] DP&L's response was very general and not responsive. DP&L has further stated that it has never maintained separate books for the distribution function, the transmission function, or the generation function of DP&L.[13]

Q24. Should this information be available?

A24. Yes. Section II, paragraph C, of the Second Amended Corporate Separation Plan states:

> As required by Revised Code Section 4928.17(A)(1) and corporate separation rule OAC Section 4901:1-37-04(B), DP&L and each affiliate or business unit in the DP&L group will maintain, in accordance with generally accepted accounting principles, and applicable uniform system of accounts, books, records and accounts that are separate from the books, records and accounts of each other affiliate or business unit.

[8] Attachment C (DP&L's Responses to IEU-Ohio's First Set of Interrogatories, Requests for Production of Documents, and Requests for Admission, October 23, 2012, ESP INT 1-23).

[9] Attachment D (DP&L's Responses to OCC's Twentieth Set of Interrogatories, Requests for Production of Documents, and Requests for Admission, December 12, 2012, 355).

[10] Attachment E (DP&L's Responses to IEU-Ohio's Second Set of Interrogatories and Requests for Production of Documents, November 20, 2012, ESP INT 2-8); Attachment F (DP&L's Responses to FES' Ninth Set of Discovery Requests, December 21, 2012, Interrogatory No. 9-10).

[11] Attachment G (DP&L's Responses to FES' Ninth Set of Discovery Requests, December 21, 2012, Interrogatory No. 9-11).

[12] Attachment H (DP&L's Responses to IEU-Ohio's Ninth Set of Interrogatories and Requests for Production of Documents, January 17, 2013, ESP INT 9-8).

[13] Attachment I (DP&L's Responses to IEU-Ohio's Tenth Set of Interrogatories and Requests for Production of Documents, February 1, 2013, ESP INT 10-4).

As noted above, separate unit accounting is required for the separate business units. [redacted][14]

Q25. Do you believe that not maintaining separate accounting is a violation of the corporate separation rules of the state of Ohio?

A25. Yes. I believe that not maintaining separate accounting is a violation of 4901:1-37-04(B), O.A.C. This accounting requirement requires separate accounting between "affiliates" where the term "affiliates" is defined as "companies that are related to each other due to common ownership or control. The affiliate standards shall also apply to any internal merchant function of the electric utility whereby the electric utility provides a competitive service."[15] Based on advise on counsel, not maintaining separate accounting also violates Section 4928.17(A)(1), Revised Code.

Q26. Why should DP&L be required to maintain separate accounting between the distribution function, transmission function and its unregulated generation function?

A26. Without separate functionalized business unit accounting and financial data, DP&L cannot demonstrate that there is no unlawful cross-subsidization occurring

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[14] [redacted]

[15] Rule 4901:1-37-01(A), O.A.C.

between DP&L's competitive and noncompetitive businesses. I believe this information is essential to make sure that DP&L's ESP does not become an unreasonable vehicle to make all distribution customers underwrite the financial performance of DP&L's competitive and FERC-regulated lines of business within the total company framework put forth by DP&L.

Q27. Should either the SSR or the ST be approved based on a total company rate of return analysis which includes the distribution function, the transmission function and the generation function?

A27. No. The financial review performed by DP&L effectively and improperly re-bundles DP&L's distribution, transmission and generation functions to calculate the ROE, thereby violating corporate separation requirements that apply when an EDU like DP&L is providing competitive and noncompetitive services in the retail and wholesale markets. It is my understanding that Ohio has by statute defined generation as a competitive service. As a competitive service, it is improper to bundle this service together with distribution service, a noncompetitive and regulated service. Further, the testimony of witness Chambers leads me to believe that the forecasted financial degradation is driven by an assumed loss of revenue and margin from the competitive wholesale generation business. Approval of these riders to compensate for lost generation revenue would unlawfully subsidize DP&L's competitive wholesale generation business and provide no apparent benefit to the distribution customers. Accordingly, I believe that the proposed riders are unreasonable and, based on advice of counsel, unlawful.

V. TRANSITION REVENUES

Q28. Were the future earnings and lost revenue and margin potential of DP&L's generation business previously addressed?

A28. Yes. The expected future earnings and lost revenue and margin potential of DP&L's generation business attributable to electric restructuring were previously addressed through the ETP process followed by all EDUs, including DP&L, after the enactment of SB3.

Q29. Were you involved in DP&L's ETP case?

A29. Yes. As described in my background, I was a member of the Commission Staff at the time of the processing of DP&L's ETP application.

Q30. What is your understanding of how and when SB 3 permitted collection of transition revenue?

A30. Like many states that enacted electric restructuring legislation in the late 1990's, Ohio addressed the subject that was typically referred to as "stranded costs" for those services for which a customer could select a competitive supplier. This subject provoked most of the debate about how to move to a customer choice structure, while at the same time being fair to utilities that may have been negatively impacted if they were subjected to competition on day one of customer choice. SB 3 implemented customer choice on January 1, 2001. SB 3 also provided an opportunity for the surviving regulated entity, the EDU, to seek transition revenue associated with the prior vertically integrated electric generation function for a period of years, but not after December 31, 2010. SB 3 contains the criteria that the Commission applied to determine how much, if any, of the transition revenue claim was eligible for recovery. When the Commission approved a transition revenue claim, it also approved transition charges that the EDU could then charge shopping customers for the period specified by the Commission. For non-shopping customers, the transition charges were embedded in the default generation supply price and were equal to the portion of the applicable default generation supply price that was not avoidable by shopping customers.

Q31. Please explain the difference between transition revenue and transition costs.

A31. An allowable claim for transition revenue had to be based on the positive difference between the generation-related revenue stream for generation service based on a date certain and a capped price previously established by Ohio's cost-based regulation, and the generation-related revenue stream available from the application of market pricing to generation service supply. In some cases, the cost-based revenue stream was believed to be less than the market-based revenue stream and, in this instance, there would have been no allowable transition revenue claim and no "stranded costs" as a result of electric restructuring. A positive difference in these unbundled default generation supply prices created through implementation of SB 3 and the market-based revenue streams was referred to as a transition cost. The transition cost reflected the differences in value available to the generation business segment from two different means of establishing price. Although the use of the term "transition costs" or "stranded costs" may imply that SB 3 created a new type of generation-related cost that was accounted for as some type of transition costs or stranded costs, SB 3 did not do so.

Q32. What is your understanding of the SB 3 criteria that were applied to determine how much, if any, transition revenue could be approved by the Commission and collected through transition charges?

A32. It is my understanding that Section 4928.39, Revised Code, specified these criteria. These criteria were applied to determine the total amount of generation-related transition revenue that was eligible for collection through transition charges **if** an EDU submitted a claim for transition revenue. SB 3 did not require transition revenue to be addressed unless the EDU submitted a claim for transition revenue.

Q33. Which EDUs submitted a claim for transition revenues?

A33. All of the EDUs, including DP&L, submitted a claim with their ETP applications which also contained the plans by which the formerly vertically integrated electric utility would separate, either structurally or functionally, into distribution, transmission and generation business units (or affiliates) subject to important requirements to facilitate "customer choice" and avoid differentiation or discrimination by the EDU as a consequence of a customer's choice of a supplier of generation service.

Q34. More specifically, what is your understanding of the criteria that were used to determine how much, if any, of a particular transition revenue claim was eligible for collection through transition charges?

A34. It is my understanding that Section 4928.39, Revised Code, contains the criteria used to determine the total allowable transition revenue claim. A transition revenue claim was eligible for collection through transition charges if the revenue claim was limited to:

(1) Costs that were prudently incurred;

(2) Costs that were legitimate, net verifiable, and directly assignable or allocable to retail electric generation service provided to electric consumers in this state;

(3) Costs that were unrecoverable in a competitive market; and

(4) Costs that the utility would otherwise have been entitled an opportunity to recover.

All four of the criteria had to be satisfied for the transition revenue claim to be recoverable. With these criteria and the firm service nature of the default generation supply obligation of the EDU, the Commission evaluated transition revenue claims based on a comparison of the revenue produced by the EDU's unbundled and capped default generation supply price and a revenue stream computed based on assumed market prices for the entire range of generating services and fixed and variable costs used in Ohio's prior cost-based ratemaking system. Since generation service was the only service declared to be competitive by SB 3, the transition revenue evaluation process focused exclusively on the generation function.

Q35. Was the amount of a total generation-related transition revenue claim potentially separated into different components?

A35. Yes. The total allowable amount of any generation-related transition revenue claim was separated if a portion of that total claim was based on a claim for regulatory assets. The total transition charge resulting from any allowable transition revenue claim was also separated to show a separate regulatory asset charge. It is my understanding that SB 3 limited the Commission's ability to make adjustments to the regulatory asset portion of an allowed transition charge and also required the regulatory asset portion of a transition charge to end no later than December 31, 2010. It is also my understanding that under SB 3, the non-regulatory asset portion of any transition charge which was associated with above-market generating plants had to end by no later than December 31, 2005 or the end of the market development period ("MDP"), whichever occurred first. Based on the advice of counsel, I also understand that Section 4928.141, Revised Code, which was added after SB 3, excluded any previously authorized allowances for transition costs, with the exclusion becoming effective on and after the date the allowance was scheduled to end under the prior rate plan.

Q36. Generally, how was the amount of generation-related transition revenue associated with above-market generating plants measured?

A36. If an EDU wanted to make a claim for transition revenue, it had to include the claim in its proposed ETP. A proposed ETP had to be filed 90 days after the effective date of SB 3. The statutory criteria discussed above were then used to determine how much of the generation-related transition revenue claim was eligible for collection through transition charges. For the generation plant-related portion of the transition revenue claim, the Commission's Staff used the net book value of generating assets at December 31, 2000 as the baseline to determine how much, if any, of the net, verifiable, prudently incurred book value of the EDU's generation assets (including generation-related regulatory assets) would not be recoverable in the market. In this context, the market included the entire market, including the wholesale and retail segments.

Q37. Please describe the generation plant-related transition revenue claim made by DP&L in its proposed ETP.

A37. DP&L filed its proposed ETP on December 20, 1999. As a part of its proposed ETP, DP&L submitted a claim for transition revenue that included both above-market generation plant costs (consumer transition charge or "CTC") and a regulatory asset component (regulatory transition charge or "RTC"). DP&L relied upon witness Ralph L. Luciani to estimate the extent to which they had a basis for claiming generation plant-related transition revenue. DP&L witness Richard D. Reid estimated the regulatory assets that DP&L was requesting to be recovered as a portion of the transition costs.

Q38. How did DP&L value its above-market generation plant costs?

A38. Mr. Luciani used a lost book value under a continued ownership-based approach. Generally, this approach produces a present value of the future market-based after-tax cash flows for the various generating plants minus the net book value of the generating plants as they were valued at December 31, 2000. Generation plant-related transition costs were deemed to be positive (and potentially eligible for recovery through transition charges) if the present value of the projected cash flow was, in the aggregate, less than the net book value of the generating plants at December 31, 2000. Again, the generation plant-related transition revenue had to be recovered during the period beginning January 1, 2001 through either the end of the MDP or December 31, 2005, whichever occurred first. Mr. Luciani projected market-based generation revenue, expenses, and capital expenditures for the period 2001 through 2031. He discounted these projections to December 31, 2000 to develop his net present value revenue stream and then compared this net present value to the net generation plant and associated asset book values as of the same date, December 31, 2000. From this comparison, he rendered an opinion on the amount of generation plant-related transition revenue that the Commission should approve for DP&L. The results of his analysis are summarized in his Exhibit RLL-6 filed as a part of his direct testimony filed on December 20, 1999 in the DP&L ETP case.[16] He estimated that there was $231 million of stranded generation-related costs, valued at December 31, 2000. DP&L's request included a carrying cost of $210 million (9.2% carrying cost rate) for a total recovery of $441 million. I have attached a copy of Mr. Luciani's Direct Testimony as Attachment K. The recovery mechanism for this item was the CTC for shopping customers. The CTC was to be paid by all distribution customers and was unavoidable for shopping customers. As stated above, for non-shopping customers the transition revenue charge was embedded in the default generation supply price.

[16] *In the Matter of the Application of the Dayton Power and Light Company for Approval of its Transition Plan Pursuant to Section 4928.31, Revised Code and for the Opportunity to Receive Transition Revenues as Authorized Under Sections 4928.31 to 4928.40, Revised Code*, PUCO Case Nos. 99-1687-EL-ETP, *et al.*, Direct Testimony and Exhibits of Ralph L. Luciani at Exhibit RLL-6 (December 20, 1999).

Q39. What was the value of the generation-related regulatory assets that were claimed by DP&L as a transition cost?

A39. Mr. Reid estimated that value at December 31, 2000 to be $171 million. This included deferral of regulatory assets for Demand-Side Management, Percentage of Income Payment Plan ("PIPP") costs, Station Emission Fees, Phase-In Deferral Costs, Deferred Interest–Zimmer, Killen Post In Service Accounting for Funds During Construction ("AFUDC"), Unamortized Debt Discount and FAS 109 Net Assets.[17] The recovery mechanism (RTC) for this item was calculated and subtracted from the unbundled generation rate. The RTC was to be paid by all distribution customers and could not be avoided or bypassed by shopping customers.

Q40. Were there other costs that DP&L requested as transition costs?

A40. Yes. DP&L also requested recovery of employee assistance costs and tax timing overlap costs.

Q41. How was DP&L's transition revenue claim resolved in the ETP proceeding?

A41. As part of a settlement package that was approved by the Commission, DP&L agreed that recovery for CTC and RTC would end on December 31, 2003 and that "there will be no further netting or adjustments of any kind to any rate, CTC rate, RTC rate, or shopping credit through December 31, 2003, including, but not limited to, adjustments for the sale, lease, or transfer of any assets by DP&L or

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[17] *In the Matter of the Application of the Dayton Power and Light Company for Approval of its Transition Plan Pursuant to Section 4928.31, Revised Code and for the Opportunity to Receive Transition Revenues as Authorized Under Sections 4928.31 to 4928.40, Revised Code*, PUCO Case Nos. 99-1687-EL-ETP, *et al.*, Direct Testimony and Exhibits of Richard D. Reid at 55 (December 20, 1999).

any of its affiliates."[18] DP&L also agreed, with the support of the signatory parties, that its MDP would end on December 31, 2003 based upon its agreement to forgo the recovery of transition costs beyond that date.

Q42. Did DP&L end its MDP on December 31, 2003?

A42. No. On September 12, 2002, the Office of the Ohio Consumers' Counsel ("OCC"), IEU-Ohio and American Municipal Power-Ohio ("AMP-Ohio") filed a complaint case against DP&L alleging DP&L violated the terms of the ETP stipulation by failing to be a part of an operating, FERC-approved regional transmission organization ("RTO") on the anticipated schedule. That complaint was filed in Case No. 02-2364-EL-CSS. On October 28, 2002, DP&L filed an application in Case No. 02-2779-EL-ATA to extend its MDP through December 31, 2005. These two cases were consolidated along with Case Nos. 02-2879-EL-AAM and 02-570-EL-ATA. On May 29, 2003, DP&L presented a stipulation that was agreed to by most of the parties in these cases. Transition cost recovery and the extension of the MDP were addressed in the stipulation.

Q43. How were the issues of transition revenue recovery and the extension of the MDP resolved?

A43. The RTC and the CTC were re-bundled into the generation rates. The shopping credits (effectively discounts to transition charges payable by shopping customers) that had been approved by the Commission as a part of DP&L's ETP

[18] *In the Matter of the Application of the Dayton Power and Light Company for Approval of its Transition Plan Pursuant to Section 4928.31, Revised Code and for the Opportunity to Receive Transition Revenues as Authorized Under Sections 4928.31 to 4928.40, Revised Code*, PUCO Case Nos. 99-1687-EL-ETP, *et al.*, Stipulation and Recommendation at 10 (June 2, 2000).

case were increased to promote shopping and further development of the competitive retail market. The MDP was extended through December 31, 2005. The Commission adopted these provisions of the stipulation.

Q44. Were lost generation revenue and margin accounted for in the transition cost recovery?

A44. Yes. As a part of its ETP filing, the cash method used by DP&L to value its transition costs included market-based generation revenues as an increase to cash flows and projected generation costs as a decrease to cash flows. Any lost generation revenues, whether as a result of decreases in overall market rates or decreases in the generation outputs of the individual units, were picked up in the transition cost calculations supported by DP&L. These items are identified in Mr. Luciani's Direct Testimony, RLL Attachment 1, which is attached to my testimony as Attachment K.

Q45. Did Mr. Luciani consider any methods that contemplated lost generation revenue as the only baseline for transition cost recovery without accounting for the associated generation costs?

A45. Yes. Mr. Luciani considered a method he titled "Lost Revenue under Continued Ownership." This method would have quantified transition costs by calculating the present value of the difference between future annual market revenues and future annual revenue requirements under traditional cost-based ratemaking. He explained that this method was equivalent to the Lost Book Value method he utilized and proved that, theoretically, these methods would produce the same result. His comparison is attached to his Direct Testimony as Exhibit RLL-2 at 3 of 3 (Attachment K).

Q46. Then is it correct that the generation-related lost revenue and margin that DP&L is currently requesting through its proposed SSR and the ST were accounted for under the transition cost recovery calculation that DP&L proposed in its ETP case?

A46. Yes. It is clear from Mr. Luciani's testimony that compensation for generation-related lost revenue and margin potentially associated with opening the generation business to competition were accounted for in his calculation.

Q47. Should the Commission authorize recovery of the SSR or the ST to supplement its generation and transmission earnings and authorize the ST to recover lost revenues?

A47. No. These proposals are strategically asymmetrical, unbalanced, unjust, and unreasonable. The potential for generation-related earnings erosion and lost revenue resulting from Ohio's customer choice regulatory model was analyzed and accounted for as a part of the transition from cost-based regulation to market-based regulation in DP&L's ETP as required by SB 3. The amount of above-market generation plant costs recoverable by DP&L was resolved in the ETP case. Based on advice of counsel, the period for the recovery of these costs ended on or before December 31, 2010.

VI. CONCLUSION

Q48. Does this conclude your testimony?

A48. Yes, for the time being. As a result of the procedural schedule in this phase of the proceeding and the timing of discovery responses by DP&L, I reserve the right to supplement my testimony based on any additional information I obtain from DP&L's discovery responses.

ESP INT. 1-39. Which, if any, of the proposed non-bypassable charges identified in the application for approval of an ESP filed on October 5, 2012 are charges that are designed to provide compensation for generation-related service?

RESPONSE: Subject to all general objections, DP&L states that the Reconciliation Rider may be recovering some generation-related costs if or when the FUEL, RPM, TCRR-B, AER or CBT exceed 10% or when the FUEL, RPM, and TCRR-B riders are phased out at the time DP&L's SSO is procured 100% through competitive bid. DP&L's Service Stability Rider ("SSR") is designed to ensure DP&L's financial integrity, and therefore may provide compensation for generation costs. DP&L's proposed AER-N is designed to recover the revenue requirements associated with renewable energy and therefore is compensation for generation related costs. DP&L's switching tracker would defer costs associated with the difference between the Blended SSO price and the CB rider and therefore may be compensating DP&L for generation related costs.

WITNESS RESPONSIBLE: Dona Seger-Lawson

ESP INT. 1-22. Identify any documents that describe or discuss the contribution to net income, earnings per share or margin associated with each of DP&L's business segments including but not limited to the Utility segment and Competitive Retail segment

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), and 4 (proprietary). DP&L further objects because the terms "business segment," "Utility segment," and "Competitive Retail segment" are undefined and subject to varying interpretations. DP&L further objects to the request for the Competitive Retail Segment because DP&L's unregulated affiliate is not a party to this case and thus, not subject to discovery. Subject to all general objections, DP&L states that the documents supporting the DP&L's forecasted gross margin, operating income, and net income are included in Witness Chamber's and Witness Jackson's testimonies and related exhibits, schedules, and workpapers. Earnings per share data is not applicable to DP&L.

WITNESS RESPONSIBLE: Craig Jackson

ATTACHMENT D

355. Please state the reason that the business unit reports were discontinued and provide any documents pertaining to the discontinuation of the business unit reports.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 4 (proprietary), 5 (inspection of business records), 6 (calls for narrative answer), and 9 (vague or undefined). Subject to all general objections, DP&L states that the business unit reports were discontinued due to DPL being purchased by AES. Following the acquisition, these reports were not as useful. There are no documents pertaining to the discontinuation of the business unit reports.

WITNESS RESPONSIBLE: Craig Jackson.

ATTACHMENT F

<u>**INTERROGATORY NO. 9-10:**</u> Provide DP&L's historic ROEs for the years 2009, 2010, and 2011 for the generation, transmission, and distribution segments.

RESPONSE: General Objecti~~ons Nos~~. 1 (relevance) and 2 (unduly burdensome). Subject to all general objections, DP&L states that the ROEs for the segments identified are not available.

WITNESS RESPONSIBLE: Craig Jackson.

ATTACHMENT H

ESP INT 9-8: DP&L's current and proposed corporate separation plans include the following accounting provision: "(C) Accounting Records. As required by Revised Code Section 4928.17(A)(1) and corporate separation rule OAC Section 4901:1-37-04(B), DP&L and each affiliate or business units in the DP&L group will maintain, in accordance with generally acceptable accounting principles, and applicable uniform system of accounts, books, records and accounts that are separate from the books, records and accounts of each other affiliated or business unit."

A. Explain how DP&L plans to account for the revenue from the proposed Service Stability Rider ("SSR"). The explanation should include journal entries and should be clear which unit or affiliate of DP&L will ultimately realize the SSR revenue and why that particular affiliate/unit will realize these revenues.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 4 (proprietary), and 6 (calls for narrative answer); in addition, this interrogatory calls for a legal conclusion. Subject to all general objections, DP&L states that these revenues will be recorded by the DP&L business unit since they are associated with DP&L's ESP rate case using the journal entry below:

Entry

Year	Description	Debit	Credit
2013	Accounts Receivable (Cash)	$XXX	
	Revenue		$XXX

B. Explain how DP&L plans to account for the revenue from the proposed switching tracker. The explanation should include journal entries and should be clear which unit or affiliate of DP&L will ultimately realize the switching tracker revenue and why that particular affiliate/unit will realize these revenues.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 4 (proprietary), and 6 (calls for narrative answer); in addition, this interrogatory calls for a legal

ESP INT 10-4: DP&L's current and proposed corporate separation plans include the following accounting provision: "(C) Accounting Records. As required by Section 4928.17(A)(1), Revised Code and Rule 4901:1-37-04(B), O.A.C., DP&L's business units and each affiliate will maintain, in accordance with generally acceptable accounting principles, and applicable uniform system of accounts, books, records and accounts that are separate from the books, records and accounts of each other affiliated or business unit."

A. Provide Exhibit 2, Exhibit 3 and Exhibit 4 included in Craig Jackson's Second Revised Testimony by DP&L's business units. The financial information should be in the same format as Mr. Jackson's Exhibits. Business units should, at a minimum, include the distribution unit and the transmission unit (Unit 2) and the generation unit (Unit 6).

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), and 4 (proprietary). DP&L further objects because it would be unduly burdensome for it to create Exhibits for IEU, and DP&L has no obligation to do so in discovery. Subject to all general objections, DP&L states that the reference to "business units" in its Corporate Separation Plan ("CSP") is not a reference to the distribution, transmission and generation services that DP&L provides. Specifically, DP&L's CSP from its 1999 Electric Transmission Plan case (Case No. 99-1687-EL-ETP) made no reference to maintaining its records by business unit. In DP&L's 2008 ESP case (Case No. 08-1094-EL-SSO), DP&L proposed in Tim Rice's testimony that DP&L would begin to perform certain "behind the meter" services (e.g., customer equipment maintenance) through a separate DP&L business unit; DP&L thus proposed to amend its CSP to provide that it would maintain separate books for its proposed "behind the meter" business unit; however, paragraph 7 in the Stipulation in that case provided that DP&L would withdraw its application to provide "behind the meter" services, and DP&L has never filed a new application to provide such services; DP&L thus has never maintained separate books for such services. DP&L further answers that it does not have responsive information sufficient to allow it to create the requested exhibits.

ATTACHMENT J

CONFIDENTIAL
FILED UNDER SEAL

DIRECT TESTIMONY OF
RALPH L. LUCIANI
ON BEHALF OF
THE DAYTON POWER & LIGHT COMPANY

I. QUALIFICATIONS

Q. Please state your name, occupation and business address.

A. My name is Ralph L. Luciani. I am a Vice President of PHB Hagler Bailly (PHB), an economic and management consulting firm specializing in public policy and corporate strategy. My business address is 1776 I Street, N.W., Washington D.C. 20006.

Q. Please describe your professional and educational background.

A. I have fifteen years of consulting experience analyzing economic and financial issues affecting regulated industries, including costing, ratemaking, business planning and competitive strategy issues. The majority of my consulting work has been in the electric utility industry, including working with issues related to prudence, excess capacity, replacement power, Clean Air Act compliance, stranded cost, pricing of generation in competitive markets, performance-based ratemaking and plant retirement decisions.

My recent consulting experience has been primarily in the area of electricity industry restructuring and deregulation. For example, in 1996, I headed the analytic effort that estimated the potential stranded costs of a Federal Power Agency under market-based pricing. In 1996 and 1997, I was the lead consultant in the reorganization of a vertically-integrated utility into unbundled generation, transmission, distribution and retail profit centers. In 1998, I assisted an electric utility in formulating a performance-based ratemaking plan and assisted investment groups in assessing the risks associated with the financing of a merchant generating plant. In 1998 and 1999, I assisted clients in stranded cost associated with DP&L's generating stations. The testimony of Mr. Reid quantifies DP&L's unrecoverable costs associated with regulatory assets and other transition costs.

Q. **What conclusions have you reached regarding the stranded cost associated with DP&L's generating stations?**

A. I conclude that DP&L will incur $231 million of stranded cost (after-tax) with respect to its generating stations. This represents the net present value of costs associated with DP&L's generating stations that are not recoverable in a competitive market.

III. ECONOMIC AND PUBLIC POLICY REASONS FOR RECOVERY OF TRANSITION COSTS BY DP&L

Q. **From an economic and public policy standpoint please discuss the significance of amended Substitute Senate Bill No. 3, Ohio's electric restructuring legislation.**

A. Under the prior regulated system, electric utilities such as DP&L were granted an exclusive right to furnish electric service to all load located within each utility's certified territory and each utility was subject to a corresponding obligation to provide adequate and reliable electric service. Rates for service were established by the Public Utilities Commission of Ohio ("PUCO" or "Commission"). Rates were established under a statutory formula (in Ohio Rev. Code § 4909.15) in which the rates were based upon the cost of service consisting of (1) a fair and reasonable rate of return on the valuation (at a date certain) of the property of the electric utility used and useful in rendering electric service, and (2) the cost to the utility of rendering the public utility service during a test period, i.e., the operation and maintenance expenses including depreciation and tax net plant in service account in its last electric rate case filing showed net plant in service of $2.1 billion on the March 31, 1991 date certain.

Q. **Does Ohio's electric restructuring legislation represent a fundamental policy change in the way electric utilities in Ohio operate and charge customers for electricity?**

A. Yes. Ohio's new electric restructuring legislation will make fundamental changes in the provision and pricing of retail electric generation service by making generation service competitive. Under the new law, investor-owned electric utilities such as DP&L no longer have exclusive service territories for the provision of retail generation services but must compete with other generation suppliers, marketers and brokers of retail generation service.

Q. **What effect, if any, does the deregulation of retail generation service under the electric restructuring legislation have upon the ability of electric utilities like DP&L to recover the investment in generating plant they made as regulated utilities?**

A. With customer choice, if the utility's rates for retail generation service exceed the retail market price for electricity, it is reasonable to expect customers to switch to another retail generation supplier. As a result, the utility may be unable to recover the plant investment costs that it prudently-incurred to meet its obligation as a regulated utility to serve retail customers in reliance upon its ability to charge customers the rates established by the Commission. The electric restructuring legislation contains a provision allowing the utility to recover its transition costs. Recovery of these costs is essential to enable Ohio electric utilities such as DP&L to compete effectively in providing retail generation services.

Q. From an economic standpoint, what purposes does the recovery of transition costs serve?

A. From an economic standpoint, transition cost recovery serves the goal of fairness to the utility that was required under a regulatory regime to incur costs. It also assures that this utility is not disadvantaged in the new retail generation marketplace by facing a period of financial distress at the same time that it must marshal the forces necessary to compete for the first time with competitive retail generation suppliers. In short, recovery of transition costs simply completes the regulatory bargain struck between shareholders and ratepayers and adjudicated by the Commission through a one-time recovery mechanism. The recovery of transition costs is reflected in the Restructuring Legislation in order to help ensure fairness and enable fair competition. Recovery of such costs has been included in every state electricity restructuring process of which I am aware.

Q. What are the criteria of which you are aware under the electric restructuring legislation for recoverable transition costs?

A. To be recoverable, transition costs must be "just and reasonable transition costs" that are (1) prudently incurred; (2) legitimate, net, verifiable and directly assignable or allocable to retail electric generation service provided to retail customers in Ohio; (3) unrecoverable in a competitive market; and (4) otherwise entitled to be recovered by the utility. Ohio Rev. Code § 4928.39.

Q. From a public policy and economic standpoint, is it important that this Commission allow DP&L the opportunity to collect all transition charges eligible under the Restructuring Legislation?

sale prices for assets with comparable characteristics to the utility's assets. As discussed in the testimony of Dr. Pifer, there a number of difficulties associated with applying the comparable sales approach. I share Dr. Pifer's concerns, and, as such, I have quantified DP&L's stranded cost using the DCF approach.

Q. **Can you describe the methods available to derive stranded costs using a DCF approach?**

A. Yes, there are three basic methods for deriving stranded cost using a DCF approach, all of which are similar. The first DCF method is to derive the unrecoverable, or lost, net book value of the generating assets under continued ownership. The value to the existing owner is derived as the present value of the generating assets' future market-based after-tax cash flows, using the existing owner's tax basis in the assets to compute future tax liability. The utility's net invested capital in the existing generating assets is net book value minus accumulated deferred income taxes ("ADIT").[1] The ADIT reflects income taxes that must be paid to the government in the future by DP&L that have been paid for in advance by ratepayers through the use of normalized ratemaking.[2] The value to the utility under continued ownership is netted from the utility's net invested capital in the assets to obtain after-tax stranded cost. The after-tax stranded cost is then "grossed up" for taxes using the utility's marginal income tax rate to obtain pre-tax stranded cost.

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1 For simplicity, other items that would be added or netted from book value in deriving net investment (e.g., inventory) are not included in this discussion. Inclusion of such items would not change the general conclusions contained herein.

2 Under normalized ratemaking, ratepayers pay the utility's book taxes rather than its cash taxes. The cumulative difference between book and cash taxes, or ADIT, is then deducted from ratebase.

Q. What is the third approach to estimating stranded cost using DCF?

A. The third DCF method is to assume a sale will take place at the time that competition commences (e.g., January 2001). In this approach, the sale price is assumed to be the present value of the generating assets' future market-based after-tax cash flows from the perspective of a third-party purchaser. The purchaser is assumed to have the same view of future market prices and operating costs as the utility, but will have a beginning tax basis in the generating assets based on the purchase price. The net proceeds of the sale to the existing owner after payment of capital gains tax are netted against the existing owner's net invested capital (i.e., net book value minus ADIT) to yield after-tax stranded cost. This figure is then grossed up for taxes to obtain pre-tax stranded cost.

<u>DCF Method 3: Stranded Cost with Presumed Sale</u>

$$\textit{Pre-Tax Stranded Cost}_{\textit{presumed sale}} =$$

$$[(\textit{Net Book Value} - \textit{ADIT}) - (\textit{Sale Price} - \textit{Capital Gains Tax})] / (1 - \textit{tax rate})$$

This equation simplifies to (see Exhibit RLL-2):

$$\textit{Pre-tax Stranded Cost}_{\textit{presumed sale}} = \textit{Net Book Value} - \textit{Sale Price}$$

Q. Does each of the three DCF approaches yield the same estimate of stranded cost?

A. No. Given similar input assumptions, the first two approaches yield the same estimate of stranded cost since both presume continued ownership. However, the third approach will not necessarily yield the same result as the first two approaches, even when based on the

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the regulated utility's lower cost of capital, a lost revenue approach will yield a conservatively low estimate of stranded cost.

plants under current ownership to comparable sales values would have to take the value of this tax basis step-up into account.

Q. What presumption is made about the treatment of Statement of Financial Accounting Standards No. 109 ("FAS 109") regulatory assets in the derivation of stranded cost under the three DCF methods discussed above?

A. It is presumed that the utility is made whole by ratepayers for the net FAS 109 regulatory assets on its books as of December 31, 2000. The ADIT deducted from net book value in DCF Method 1 above is the difference between the asset's book and tax basis multiplied by the income tax rate – i.e., the ADIT reflects full normalization. This ADIT is assumed to have been paid for in advance by ratepayers through normalized ratemaking (i.e., the utility is holding cash or other assets to pay the future tax obligations). However, in setting prior rates, some of the deferred taxes shown on the utility's books were not normalized, and instead were flowed through to ratepayers.

As a simple example, assume that an ADIT of $100 is deducted from net book value in deriving net investment in DCF Method 1. Assume $60 of this ADIT had been normalized in rates, and thus the utility is holding this amount in cash or other assets to pay for the future tax obligations. Assume $40 of this ADIT had been flowed through immediately to ratepayers, and thus the utility is not yet holding this amount in cash or other assets to pay for the future tax obligations.[5] The various accounts would look as follows:

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[5] The flow through of the $40 would have decreased revenue requirements at that time by $40 / (1-tax rate) in comparison to the revenue requirements under normalized ratemaking. With a 35% tax rate, the decrease would have been $40 / (1-35%), or $61.5.

4. Calculating the difference between net investment as of December 31, 2000 and the December 31, 2000 present value of annual after-tax operating cash flow from January 1, 2001 forward. A discount rate based on the cost of capital in a competitive generation market is used to present value the annual market-based after-tax operating cash flows.

5. Applying a jurisdictional percentage to derive stranded costs associated with the Ohio retail portion of DP&L's system.

Q. **Please describe in more detail the derivation of DP&L's net investment in generation assets as of December 31, 2000.**

A. The derivation of DP&L's net investment as of December 31, 2000 in its generation plant is similar to the traditional ratemaking practice used to derive rate base. Net investment is calculated as the net book value of the generating stations; plus the value of fuel and material inventories and working capital that support the stations; plus an allocated share of general utility plant; minus accumulated deferred income taxes (ADIT). The calculation proceeds as follows:

- The starting point is the net plant balance as of December 31, 1998, which includes the gross book value of generation plant investment net of accumulated depreciation.

- Generating plant capital additions for 1999 and 2000 are based on the latest DP&L corporate budget projections.

owned units. The fuel expenses from GE MAPS were adjusted to take into account existing fuel contracts and the receipt of SO_2 and NO_x allowances. Book lives contained in the depreciation studies submitted in the operating company's last rate case were used to derive the retirement date for each unit.[6] For the most part, retirements of the larger coal-fired stations are in the 2020 time-frame, with Zimmer's retirement in 2031. As discussed in the testimony of Mr. Speyer, there are a number of significant environmental uncertainties associated with coal-fired stations. Regardless, the full book life was assumed as the operating life for each unit. Non-fuel operations and maintenance expenses associated with production plant were obtained from the most recent DP&L corporate budgets. The administrative and general expenses and payroll taxes allocable to production were from DP&L's most recent corporate budget and distributed to individual stations based on non-fuel operations and maintenance expense. Property and inventory taxes were included (reflecting the tax changes associated with the restructuring legislation). Post-retirement net decommissioning costs were included based on a 1996 Sargent and Lundy study.[7]

Q. **What was the basis for the projection of capital additions, inventories and working capital?**

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6 Thus, the latest approved Dayton depreciation study was used to derive the retirement dates for the Dayton-operating units, and the latest approved Cinergy depreciation study was used to derive the retirement dates for the Cinergy-operated units. For Conesville, which is operated by AEP, the Dayton depreciation study was used. The Tait gas turbine units placed in service in the 1995-1998 period are assumed to retire in 2030.

7 The Sargent & Lundy study was performed on behalf of Cinergy. Only data from that study related to units co-owned with Dayton were used in the preparation of this testimony.

Q. **What discount rate was applied to the after-tax cash flows to derive the December 31, 2000 present value?**

A. Annual after-tax operating cash flows were discounted back to December 31, 2000 to derive the projected value of the assets under continued DP&L ownership. As shown in Exhibit RLL-5, a discount rate of 9.2 percent was applied to these market-based cash flows based on an estimate of the cost of capital in competitive generation markets. Dr. Pifer used these same cost of capital assumptions in his derivation of market prices in a competitive generation market. The testimony of Dr. Avera discusses in detail the cost of capital applicable to merchant generating facilities.

Q. **Has the calculation of generation plant stranded costs been allocated to Ohio retail customers?**

A. Yes. The 98.2 percent factor used in the last DP&L rate case was applied to reflect DP&L's Ohio retail share.

Q. **Please describe the results of these estimates of stranded costs.**

A. Results are summarized in Exhibit RLL-6. As shown, the generating plant stranded cost is $231 million. Further details are provided in Attachment 1.

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

A. Yes.

under uncertainty, the cost of serving particular types of customers, and the impact of deregulation on generation revenues and profitability.

- Mr. Luciani has assisted an electric utility in formulating a performance-based ratemaking (PBR) plan, and presenting the plan to the state public utility commission.
- He has evaluated the stranded investment exposure of generation providers in the northwestern United States under market pricing in a restructured electric market.
- On behalf of an electric utility holding company, he has assessed alternative means of deriving open-access transmission tariffs.
- Mr. Luciani has assisted electric utilities in formulating strategies for meeting provisions of the Clean Air Act regarding SO_2 and NO_x emissions.
- He has prepared a study of the differences between the financial and competitive environments faced by private and public electric utilities.

In 1997 and 1998, Mr. Luciani testified before the Pennsylvania and Louisiana public utility commissions on electricity restructuring issues. In 1999, Mr. Luciani filed testimony on stranded cost before the Public Service Commission of Maryland. On several occasions, Mr. Luciani has provided expert testimony before the Postal Rate Commission on behalf of a parcel shipping company intervening in a U.S. Postal Service rate proceeding.

Prior to joining PHB, Mr. Luciani worked as an Edison engineer for the General Electric Company and as a financial analyst for IBM Corporation.

Mr. Luciani holds a B.S. with University Honors in Electrical Engineering and Economics from Carnegie Mellon University, and an M.S. with Distinction in Industrial Administration from the Graduate School of Industrial Administration at Carnegie Mellon University.

Simplification of Stranded Cost Formula with Presumed Sale

Additional terms:

SP = Sale Price

TB = Existing Owner Tax Basis

1. *Pre-Tax Stranded Cost$_{presumed\ sale}$ = (Net Investment – Net Sale Proceeds) /(1- Tc)*
2. *Pre-Tax Stranded Cost$_{presumed\ sale}$ = (NBV – ADIT – (SP – capital gains tax)) /(1- Tc)*
3. *Capital Gains Tax = (SP – TB) * Tc*

Substituting equation 3 into 2 yields:

4. *Pre-Tax Stranded Cost$_{presumed\ sale}$= (NBV – ADIT – (SP – (SP – TB) * Tc)) / (1- Tc)*

The ADIT is the after-tax difference between net book value and the tax basis, or:

5. *ADIT = (NBV – TB) * Tc*

Substituting 5 into 4 yields:

6. *Pre-Tax Stranded Cost$_{presumed\ sale}$*

   *= NBV/(1-Tc) – NBV*Tc/(1- Tc) + TB* Tc/(1-Tc) – SP/(1-Tc) + SP*Tc/(1-Tc) - TB*Tc/(1-Tc)*

which simplifies to

= NBV(1-Tc)/(1-Tc) – SP(1-Tc)/(1-Tc)*

which simplifies to:

= NBV – SP

Example Stranded Cost Treatment of FAS 109 Regulatory Assets

Income Tax Rate 35%
Tax Gross-up 1.54

	Case 1 100% Normalization	Case 2 100% Flow Through	
A Net Book Value - PUC	1,000.00	1,000.00	
B Net Tax Value - IRS	900.00	900.00	
C Current Basis Difference	100.00	100.00	A-B
D -- Flowed Through to Ratepayers	-	100.00	
E -- Normalized for Ratemaking	100.00	-	C-D
F ADIT(N) -- Normalized for Ratemaking	35.00	-	E*35%
G ADIT(FT) -- Flowed Through to Ratepayers	-	35.00	D*35%
H Regulatory Asset	-	53.85	G*1.54
I ADIT (Incremental FAS 109 Deferred Credit)	-	18.85	H*35%
J Total ADIT -- Deferred Credit	35.00	53.85	F+G+H
K Cash	35.00	-	F
BALANCE SHEET			
L **Assets** Net Plant	1,000.00	1,000.00	A
M Cash	35.00	-	K
N Regulatory Asset	-	53.85	H
O Total	1,035.00	1,053.85	SUM
P **Liability** ADIT -- Deferred Credit	35.00	53.85	J
Q Total	35.00	53.85	SUM
R NET (Should equal net plant)	1,000.00	1,000.00	O-Q
STRANDED COST CLAIM			
Regulatory Assets			
S Net FAS 109 Regulatory Assets	-	53.85	H
Owned Generation			
T Net Plant	1,000.00	1,000.00	A
U ADIT -- Full Normalization	35.00	35.00	F+G
V Net Investment	965.00	965.00	T-U
W After-Tax Market Value of Owned Plant	500.00	500.00	PV of future cash flow (*)
X Owned Plant After-Tax Stranded Cost	465.00	465.00	V-W
Y Owned Plant Pre-Tax Stranded Cost	715.38	715.38	Y*1.54
Z Pre-Tax CTC Paid by Ratepayers	715.38	769.23	S+Y
a Income Tax on CTC Paid by Ratepayers	250.38	269.23	Z*35%
b Cash Received from Ratepayer CTC	465.00	500.00	Z-a
c Cash Already On Hand	35.00	-	K
d Cash from Market Value	500.00	500.00	W
e Total Cash	1,000.00	1,000.00	b+c+d

(*) - with tax basis of B

After-Tax Weighted Average Cost of Capital for Merchant Generation

Effective Income Tax Rate for Merchant Generation Owned by DP&L: *40.7%*

	Share	Rate			
Debt	51%	8.2%	* (1 – Tax Rate)	=	2.5%
Equity	49%	13.6%		=	6.7%
After-Tax Weighted Average Cost of Capital					9.2%

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

Discount Date = 01/01/2001
Discount Rate = 9.17%

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inflation Factor		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Generation (gWh)	Capacity (MW)															
Beckjord	210	854.2	778.2	705.3	720.7	736.4	752.5	769.0	785.7	249.4	-	-	-	-	-	-
Conesville	129	868.4	862.4	856.4	830.6	805.5	781.1	757.5	734.6	598.8	488.3	488.3	488.3	488.3	488.3	488.3
East Bend	186	1,399.0	1,399.0	1,399.1	1,399.9	1,400.7	1,401.6	1,402.4	1,403.2	1,400.3	1,397.4	1,397.4	1,397.4	1,397.4	1,397.4	1,397.4
Hutchings	404	274.5	256.1	249.9	281.0	316.3	358.5	402.3	454.6	237.9	82.4	-	-	-	-	-
Killen Station	418	3,025.2	3,045.1	3,066.8	3,078.1	3,085.4	3,094.7	3,104.1	3,113.6	2,998.9	2,888.4	2,888.4	2,888.4	2,888.4	2,888.4	2,888.4
Miami Fort	360	2,166.3	2,282.9	2,403.5	2,421.6	2,439.8	2,458.2	2,476.8	2,495.4	2,199.5	1,941.8	1,941.8	1,941.8	1,941.8	1,941.8	1,512.4
Monument	12	0.2	0.4	1.0	1.2	1.3	1.5	1.6	2.0	1.6	0.5	-	-	-	-	-
Sidney	12	0.2	0.4	1.0	1.2	1.3	1.5	1.6	2.0	1.6	0.6	-	-	-	-	-
Stuart	822	5,865.9	5,901.7	5,937.9	5,899.2	5,860.6	5,822.8	5,786.0	5,747.6	5,363.9	5,007.4	5,007.4	5,007.4	5,007.4	5,007.4	5,007.4
Tait	314	38.6	84.9	186.5	187.9	151.1	136.1	122.7	110.7	98.5	88.9	88.4	88.4	88.4	88.4	88.4
Yankee	138	5.9	14.1	33.5	32.3	31.0	29.9	29.1	28.4	28.7	12.6	-	-	-	-	-
Zimmer	365	2,862.0	2,862.0	2,862.0	2,862.8	2,866.2	2,868.5	2,868.4	2,870.0	2,865.7	2,861.4	2,861.4	2,861.4	2,861.4	2,861.4	2,861.4
Total	3,370	17,162.6	17,287.4	17,503.3	17,495.1	17,494.9	17,503.3	17,520.7	17,547.9	15,643.6	14,549.9	14,473.1	14,473.1	14,473.1	14,473.1	14,043.7
Revenues and Expenses																
Energy Revenues Per MWh ($/MWh)																
Beckjord		23.95	27.86	32.42	34.09	35.71	37.47	39.33	41.27	46.52	-	-	-	-	-	-
Conesville		22.40	25.34	28.89	30.14	31.70	33.34	35.07	36.88	41.14	45.86	47.03	48.20	49.41	50.64	51.91
East Bend		21.96	24.85	27.86	28.69	29.75	30.85	32.04	33.25	36.81	40.75	41.77	42.81	43.88	44.96	46.11
Hutchings		33.09	43.21	57.29	58.86	60.45	62.07	63.72	65.39	83.14	106.94	-	-	-	-	-
Killen Station		22.02	24.57	27.86	28.74	29.56	31.03	32.25	33.51	37.37	41.66	42.73	43.76	44.89	46.01	47.16
Miami Fort		22.79	25.59	28.74	29.84	30.99	32.19	33.43	34.72	39.37	44.62	45.73	46.88	48.05	49.25	50.18
Monument		89.59	136.66	208.45	217.82	227.81	237.84	248.62	259.89	238.21	218.50	-	-	-	-	-
Sidney		89.47	136.53	206.87	217.98	227.70	237.86	248.48	259.56	230.54	205.29	-	-	-	-	-
Stuart		22.07	24.32	26.82	28.12	29.48	30.92	32.42	34.00	37.99	42.45	43.62	44.60	45.72	46.86	48.03
Tait		51.16	56.76	69.86	81.82	96.03	112.56	131.90	154.51	133.20	114.29	116.54	119.46	122.44	125.50	126.64
Yankee		64.71	80.18	100.31	116.99	133.86	153.43	175.38	199.55	186.45	136.83	-	-	-	-	-
Zimmer		21.87	24.70	27.90	28.96	30.09	31.25	32.48	33.71	37.39	41.40	42.43	43.49	44.58	45.70	46.84
Total		22.46	25.35	28.83	30.18	31.59	33.07	34.62	36.25	38.64	43.16	43.85	44.96	46.07	47.22	48.31
Energy Revenues	PV 1/01 on ($ Jan 1 01)															
Beckjord	149,453	20,455	21,628	22,868	24,823	26,297	28,199	30,240	32,427	11,601	-	-	-	-	-	-
Conesville	227,002	19,450	21,849	24,546	25,035	25,535	26,044	26,564	27,094	24,637	22,403	22,963	23,537	24,126	24,728	25,347
East Bend	457,815	30,758	34,491	38,560	40,157	41,691	43,282	44,936	46,651	51,541	56,944	58,366	59,827	61,323	62,856	64,427
Hutchings	110,810	9,086	11,164	14,316	16,536	19,115	22,126	25,633	29,725	19,776	8,813	-	-	-	-	-
Killen Station	1,081,829	66,606	75,111	84,508	88,393	92,133	96,032	100,095	104,331	112,072	120,369	123,409	126,495	129,657	132,896	136,221
Miami Fort	951,152	49,420	58,423	69,088	72,266	75,615	79,121	82,791	86,633	86,593	86,636	88,801	91,021	93,297	95,629	75,887
Monument	1,587	17	61	212	263	304	364	436	522	347	116	-	-	-	-	-
Sidney	1,600	17	61	212	264	304	364	435	521	364	127	-	-	-	-	-
Stuart	1,810,304	129,462	143,548	159,247	165,884	172,805	180,022	187,546	195,396	203,774	212,581	217,905	223,353	228,937	234,660	240,527
Tait	122,310	1,977	5,075	13,031	13,750	14,513	15,323	16,184	17,101	13,253	10,164	10,298	10,558	10,819	11,090	11,367
Yankee	21,152	382	1,133	3,391	3,746	4,144	4,592	5,097	5,667	4,447	1,755	-	-	-	-	-
Zimmer	1,059,449	66,217	65,756	74,271	77,182	80,207	83,350	86,617	90,012	99,585	110,175	112,929	115,753	118,646	121,612	124,653
Total	5,704,281	395,844	438,287	504,647	527,979	552,665	578,820	606,578	636,083	627,990	627,922	634,674	650,641	666,805	683,476	678,429

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

Discount Date = 01/01/2001
Discount Rate = 9.17%

	PV 1/01 on ($ Jan 1 01)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Decommissioning																
Beckjord	3,888	-	-	-	-	-	-	-	-	8,196	-	-	-	-	-	-
Conesville	1,370	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
East Bend	2,596	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hutchings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Killen Station	3,122	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miami Fort	5,235	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,222
Monument	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sidney	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stuart	8,184	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tait	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Yankee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zimmer	3,603	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	27,999	-	-	-	-	-	-	-	-	8,196	-	-	-	-	-	10,222
Tax Depreciation	PV 1/01 on ($ Jan 1 01)															
Beckjord	20,617	1,129	1,210	1,282	1,539	1,883	2,048	2,150	2,206	23,104	408	365	317	309	254	67
Conesville	9,829	821	982	1,323	1,314	1,266	1,225	1,170	1,032	906	842	822	816	806	788	783
East Bend	30,287	1,868	2,301	2,167	2,284	2,317	2,408	2,486	2,577	2,710	2,799	2,911	3,038	3,136	3,262	3,323
Hutchings	33,034	2,834	2,989	3,071	3,164	3,386	3,673	3,739	3,898	3,879	26,833	927	797	368	150	47
Killen Station	26,334	1,855	2,825	2,758	2,764	2,666	2,636	2,596	2,524	2,825	2,839	2,569	2,635	2,699	2,767	2,818
Miami Fort	58,246	3,755	4,936	4,828	4,821	4,872	4,863	5,040	5,149	5,386	5,567	5,777	6,012	6,214	6,458	27,139
Monument	23	4	4	4	4	3	2	1	1	2	11	0	0	0	0	0
Sidney	22	3	3	3	3	3	2	1	1	2	11	0	0	0	0	0
Stuart	96,563	7,812	8,489	9,023	9,191	9,178	9,250	9,252	9,174	9,218	9,137	8,987	8,937	8,869	8,844	8,868
Tait	31,436	4,860	4,573	4,421	4,301	4,325	4,334	4,337	4,341	4,341	3,480	2,409	1,342	1,160	106	112
Yankee	2,087	80	56	66	146	188	199	209	224	236	2,763	20	16	1	0	0
Zimmer	149,887	29,203	30,125	31,060	31,129	7,697	4,622	4,659	4,809	4,877	5,212	5,499	5,717	5,931	6,149	6,326
Total	460,875	54,124	58,274	60,025	60,649	37,987	35,259	35,636	35,940	57,293	59,402	30,243	29,828	29,522	28,778	48,479
Taxable Income	PV 1/01 on ($ Jan 1 01)															
Beckjord	12,943	(1,866)	627	1,665	3,334	3,250	3,137	4,068	5,307	(28,640)	3,320	3,469	3,645	2,689	2,627	2,885
Conesville	46,402	2,483	4,021	5,603	6,441	8,092	8,560	8,918	9,352	5,680	1,666	1,946	1,996	1,849	1,806	1,862
East Bend	117,619	4,534	8,966	13,045	14,779	15,717	16,815	18,207	19,670	18,560	10,064	10,269	10,473	10,661	10,909	11,204
Hutchings	(12,806)	(7,129)	(4,952)	(1,937)	(856)	1,080	1,176	3,090	5,431	(887)	(28,182)	1,159	1,414	1,584	1,801	1,634
Killen Station	270,902	14,439	20,690	28,912	31,131	34,086	35,748	38,310	41,057	32,896	19,862	19,832	20,478	20,674	21,215	21,797
Miami Fort	124,438	3,329	10,621	17,498	19,549	21,665	22,775	25,017	27,229	18,066	8,630	6,790	6,848	8,366	6,155	(24,852)
Monument	284	(121)	(91)	27	58	92	132	184	246	91	(14)	3	3	2	1	(0)
Sidney	293	(121)	(90)	28	58	92	132	184	246	100	(9)	3	3	3	1	(0)
Stuart	410,591	25,869	35,433	44,745	49,078	55,174	58,936	64,106	69,829	52,306	27,871	28,896	29,839	30,041	30,792	31,787
Tait	23,582	(5,743)	(3,711)	1,151	2,338	3,365	4,449	5,698	6,907	2,744	436	1,685	2,746	3,006	4,180	4,298
Yankee	8,438	(563)	(164)	1,666	1,744	2,107	2,503	2,977	3,472	2,134	(2,060)	28	34	46	22	(0)
Zimmer	95,230	(18,595)	(14,950)	(6,197)	(6,172)	20,687	26,188	28,675	31,194	25,211	12,709	12,948	13,200	13,232	13,808	14,176
Total	1,097,917	18,634	56,587	106,136	121,682	185,806	190,526	199,456	219,841	125,839	52,014	87,022	90,660	90,252	93,113	94,790

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

Discount Date = 01/01/2001
Discount Rate = 9.17%

After-Tax Cash Flow	PV 1/01 on ($ Jan 1 01)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Beckjord	9,855	(3,821)	(1,077)	1,473	(4,120)	349	351	938	1,628	10,826	2,377	2,424	2,479	2,023	1,812	1,778
Conesville	25,667	911	(5,729)	3,184	4,930	8,784	8,983	8,132	8,244	3,931	1,609	1,617	1,829	1,524	1,470	1,501
East Bend	62,314	(7,233)	5,881	5,761	8,860	8,802	9,288	10,092	10,973	9,173	5,326	5,478	5,839	5,899	5,939	6,060
Hutchings	8,856	(6,107)	(3,197)	259	(1,089)	89	203	1,403	2,846	(1,027)	25,125	1,815	1,836	1,327	1,099	1,016
Killen Station	149,367	(9,427)	10,735	15,602	20,440	20,888	21,792	23,222	24,727	19,716	11,765	12,076	12,408	12,519	12,857	13,191
Miami Fort	61,551	(28,972)	7,573	11,046	11,969	12,501	13,119	14,392	15,677	10,394	3,612	3,732	3,868	3,828	3,586	13,536
Monument	206	(71)	(63)	17	35	55	78	108	145	53	76	2	2	1	1	0
Sidney	212	(71)	(63)	17	35	55	78	108	145	58	82	2	2	2	1	0
Stuart	239,941	(6,733)	11,291	23,352	33,366	36,031	37,161	40,055	43,072	32,856	17,893	18,158	18,467	18,314	18,528	18,910
Tait	44,130	1,317	2,231	4,978	5,838	6,189	6,818	7,558	8,215	6,802	3,836	3,177	2,786	2,762	2,402	2,470
Yankee	5,148	(329)	(84)	171	236	1,037	1,274	1,554	1,862	1,062	3,129	37	35	28	13	0
Zimmer	129,187	14,400	(4,087)	21,626	23,225	16,234	14,864	16,356	17,671	14,366	7,036	7,288	7,542	7,825	8,028	8,267
Total	736,226	(46,135)	23,102	87,385	103,428	105,736	111,095	121,917	133,393	108,739	81,865	55,605	58,501	65,472	65,725	66,750

Net Investment (Jan 1, 2001)	PV 1/01 on ($ Jan 1 01)
Beckjord	15,326
Conesville	10,782
East Bend	55,665
Hutchings	43,332
Killen Station	146,790
Miami Fort	61,479
Monument	172
Sidney	172
Stuart	116,551
Tait	46,302
Yankee	2,449
Zimmer	469,305
Total	971,318

Stranded Net Investment	PV 1/01 on ($ Jan 1 01)
Beckjord	5,473
Conesville	(14,884)
East Bend	(6,649)
Hutchings	34,676
Killen Station	(577)
Miami Fort	(72)
Monument	(36)
Sidney	(39)
Stuart	(123,391)
Tait	2,173
Yankee	(2,699)
Zimmer	340,118
Total	235,091

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

Discount Date = 01/01/2001
Discount Rate = 9.17%

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Inflation Factor		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Generation (gWh)	Capacity (MW)																
Beckjord	210	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conesville	129	488.3	488.3	488.3	488.3	244.2	-	-	-	-	-	-	-	-	-	-	-
East Bend	186	1,397.4	1,397.4	1,397.4	1,397.4	1,397.4	698.7	-	-	-	-	-	-	-	-	-	-
Hutchings	404	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Killen Station	418	2,888.4	2,888.4	2,888.4	2,888.4	2,888.4	2,888.4	2,888.4	2,888.4	2,888.4	1,444.2	-	-	-	-	-	-
Miami Fort	360	1,083.0	1,083.0	541.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Monument	12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sidney	12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stuart	822	5,007.4	5,007.4	5,007.4	5,007.4	5,007.4	2,503.7	-	-	-	-	-	-	-	-	-	-
Tait	214	88.4	88.4	88.4	88.4	88.4	88.4	88.4	88.4	88.4	88.4	88.4	88.4	88.4	88.4	44.2	-
Yankee	138	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zimmer	365	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	2,661.4	1,330.7
Total	3,370	13,614.3	13,614.3	13,072.8	12,531.3	12,287.2	8,840.6	5,638.2	5,638.2	5,638.2	4,194.0	2,749.7	2,749.7	2,749.7	2,749.7	2,705.6	1,330.7
Revenues and Expenses																	
Energy Revenues																	
Per MWh ($/MWh)																	
Beckjord		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conesville		53.20	54.63	55.90	57.30	58.73	-	-	-	-	-	-	-	-	-	-	-
East Bend		47.28	48.44	49.65	50.89	52.16	53.47	-	-	-	-	-	-	-	-	-	-
Hutchings		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Killen Station		48.34	49.55	50.79	52.06	53.36	54.69	56.06	57.46	58.90	60.37	-	-	-	-	-	-
Miami Fort		50.88	52.15	53.45	-	-	-	-	-	-	-	-	-	-	-	-	-
Monument		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sidney		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stuart		49.23	50.47	51.73	53.02	54.35	55.70	-	-	-	-	-	-	-	-	-	-
Tait		131.86	135.15	138.53	141.99	145.54	149.18	152.91	156.74	160.65	164.67	168.79	173.01	177.33	181.77	186.31	-
Yankee		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zimmer		48.01	49.21	50.44	51.70	52.99	54.32	55.68	57.07	58.49	59.96	61.45	62.99	64.57	66.18	67.83	69.53
Total		49.41	50.65	51.85	53.07	54.32	55.71	57.40	58.83	60.30	62.30	64.90	66.53	68.19	69.89	69.77	69.53
Energy Revenues	PV 1/01 on ($ Jan 1 01)																
Beckjord	149,453	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conesville	227,002	25,980	26,630	27,296	27,978	14,339	-	-	-	-	-	-	-	-	-	-	-
East Bend	457,615	66,038	67,689	69,381	71,116	72,894	37,358	-	-	-	-	-	-	-	-	-	-
Hutchings	110,810	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Killen Station	1,081,626	139,626	143,117	146,695	150,362	154,121	157,974	161,924	165,972	170,121	87,187	-	-	-	-	-	-
Miami Fort	661,152	55,098	56,476	28,944	-	-	-	-	-	-	-	-	-	-	-	-	-
Monument	1,587	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sidney	1,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stuart	1,810,304	246,540	252,703	259,021	265,496	272,134	139,469	-	-	-	-	-	-	-	-	-	-
Tait	122,310	11,651	11,942	12,241	12,547	12,861	13,182	13,512	13,850	14,196	14,551	14,915	15,287	15,670	16,061	8,231	-
Yankee	21,182	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zimmer	1,059,449	127,789	130,983	134,237	137,593	141,033	144,559	148,173	151,877	155,674	159,566	163,555	167,644	171,835	176,131	180,534	92,524
Total	5,704,261	672,703	689,521	677,815	685,093	687,382	492,542	323,609	331,698	339,991	261,304	178,470	182,932	187,505	192,192	186,766	92,524

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

Discount Date = 01/01/2001
Discount Rate = 9.17%

Decommissioning	PV 1/01 on ($ Jan 1 01)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Beckjord	3,858	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conesville	1,370	-	-	-	-	7,581	-	-	-	-	-	-	-	-	-	-	-
East Bend	2,598	-	-	-	-	-	15,899	-	-	-	-	-	-	-	-	-	-
Hutchings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Killen Station	3,122	-	-	-	-	-	-	-	-	-	26,791	-	-	-	-	-	-
Miami Fort	5,235	-	-	11,008	-	-	-	-	-	-	-	-	-	-	-	-	-
Monument	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sidney	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stuart	8,184	-	-	-	-	-	49,448	-	-	-	-	-	-	-	-	-	-
Tait	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Yankee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zimmer	3,803	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	52,350
Total	27,999	-	-	11,008	-	7,581	65,147	-	-	-	26,791	-	-	-	-	-	52,350

Tax Depreciation	PV 1/01 on ($ Jan 1 01)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Beckjord	20,517	86	53	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Conesville	8,529	785	786	784	782	3,796	-	-	-	-	-	-	-	-	-	-	-
East Bend	30,287	3,482	3,639	3,789	3,847	3,857	33,305	-	-	-	-	-	-	-	-	-	-
Hutchings	33,034	32	24	1	-	-	-	-	-	-	-	-	-	-	-	-	-
Killen Station	26,334	2,895	2,963	3,059	3,056	2,986	2,596	2,192	2,137	2,161	20,789	-	-	-	-	-	-
Miami Fort	58,246	4,248	4,367	36,205	-	-	-	-	-	-	-	-	-	-	-	-	-
Monument	23	0	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Sidney	22	0	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Stuart	96,583	9,036	9,292	9,486	9,584	9,415	73,626	-	-	-	-	-	-	-	-	-	-
Tait	31,436	116	120	124	106	92	94	96	98	100	103	105	107	109	112	964	-
Yankee	2,097	0	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Zimmer	148,867	6,572	6,812	6,891	6,865	6,778	6,804	6,499	6,167	6,295	6,487	6,624	6,785	6,950	7,119	7,293	70,194
Total	460,575	27,232	28,077	60,420	24,342	26,926	118,626	8,788	8,393	8,560	27,329	6,729	6,892	7,059	7,231	8,257	70,194

Taxable Income	PV 1/01 on ($ Jan 1 01)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Beckjord	12,843	2,960	3,049	3,177	3,259	3,340	3,424	3,510	3,597	3,687	3,779	3,874	3,971	4,070	4,172	4,276	4,383
Conesville	46,402	1,953	2,028	2,109	2,209	(8,264)	3,186	3,245	3,326	2,927	2,508	2,569	2,633	2,699	2,766	2,835	2,906
East Bend	117,819	11,411	11,626	11,883	12,196	12,591	(37,380)	6,546	6,710	6,878	5,600	4,265	4,381	4,470	4,582	4,697	4,814
Hutchings	(12,808)	1,690	1,741	1,808	1,856	1,901	1,948	1,998	2,048	2,099	2,151	2,205	2,260	2,317	2,374	2,434	2,495
Killen Station	270,902	22,568	22,946	23,561	24,253	25,036	26,160	27,318	26,144	26,910	(24,061)	15,474	15,861	16,258	13,452	10,495	10,758
Miami Fort	124,438	8,153	8,340	(34,812)	11,078	10,542	10,806	10,002	9,151	9,378	9,614	9,854	10,101	10,353	10,612	10,877	11,149
Monument	284	(0)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Sidney	293	(0)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Stuart	410,591	32,615	33,406	34,293	35,233	36,579	(85,988)	26,106	26,810	29,531	25,341	20,924	21,447	21,984	22,533	23,096	23,674
Tait	23,582	4,418	4,539	4,656	4,614	4,987	5,106	5,247	5,392	5,541	5,693	5,850	6,010	6,174	6,343	2,455	235
Yankee	8,438	(0)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Zimmer	95,230	14,460	14,823	15,233	15,842	16,669	17,278	18,228	19,237	19,778	20,309	20,866	21,443	22,031	22,634	23,252	(101,881)
Total	1,097,917	100,057	102,499	61,787	110,791	103,362	(55,483)	104,202	106,416	106,731	50,834	85,874	88,087	90,358	89,456	84,428	(41,257)

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

Discount Date = 01/01/2001
Discount Rate = 9.17%

After-Tax Cash Flow	PV 1/01 on ($ Jan 1 01)	2016	2017	2018	2019	2020	2021	2022	2023
Beckjord	9,855	1,822	1,861	1,887	1,893	1,981	2,031	2,082	2,134
Conesville	25,887	1,536	1,571	1,605	1,632	3,563	1,878	1,925	1,973
East Bend	62,314	6,264	8,451	6,630	6,790	6,927	20,868	3,883	3,980
Hutchings	6,656	1,035	1,057	1,074	1,100	1,129	1,158	1,185	1,214
Killen Station	149,357	13,543	13,908	14,276	14,820	14,947	15,151	15,358	15,717
Miami Fort	61,561	4,727	4,848	21,561	6,570	6,253	6,409	5,932	6,427
Monument	208	0	0	0	-	-	-	-	-
Sidney	212	0	0	0	-	-	-	-	-
Stuart	239,941	19,366	19,864	20,347	20,802	21,158	58,863	16,671	17,068
Tait	44,130	2,540	2,812	2,896	2,784	2,823	2,902	2,982	3,065
Yankee	5,146	0	0	0	-	-	-	-	-
Zimmer	129,187	8,538	8,811	9,069	9,244	9,347	9,562	9,625	9,598
Total	736,225	89,371	80,963	79,128	85,446	88,127	118,809	59,842	60,236

After-Tax Cash Flow	2024	2025	2026	2027	2028	2029	2030	2031
Beckjord	2,187	2,242	2,298	2,355	2,414	2,474	2,536	2,600
Conesville	1,736	1,486	1,524	1,562	1,801	1,841	1,882	1,724
East Bend	4,079	3,322	2,824	2,687	2,651	2,718	2,786	2,855
Hutchings	1,245	1,276	1,308	1,340	1,374	1,408	1,444	1,480
Killen Station	16,117	30,442	8,178	9,407	9,642	7,978	6,225	6,380
Miami Fort	6,563	5,702	6,846	5,991	6,140	6,294	6,451	6,613
Monument	-	-	-	-	-	-	-	-
Sidney	-	-	-	-	-	-	-	-
Stuart	17,515	15,030	12,410	12,720	13,039	13,364	13,899	14,041
Tait	3,149	3,236	3,325	3,416	3,509	3,606	8,496	139
Yankee	-	-	-	-	-	-	-	-
Zimmer	9,954	10,236	10,515	10,807	11,104	11,408	11,718	32,243
Total	51,546	72,971	48,925	50,166	51,475	50,891	56,039	58,077

Net Investment (Jan 1, 2001)	PV 1/01 on ($ Jan 1 01)
Beckjord	16,328
Conesville	10,782
East Bend	55,665
Hutchings	43,332
Killen Station	148,780
Miami Fort	81,479
Monument	172
Sidney	172
Stuart	116,561
Tait	46,302
Yankee	2,449
Zimmer	469,305
Total	971,316

Stranded Net Investment	PV 1/01 on ($ Jan 1 01)
Beckjord	6,473
Conesville	(14,864)
East Bend	(6,649)
Hutchings	34,676
Killen Station	(577)
Miami Fort	(72)
Monument	(36)
Sidney	(39)
Stuart	(123,391)
Tait	2,173
Yankee	(2,699)
Zimmer	340,118
Total	235,091

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

	RETIREMENT YEAR	DPL SHARE OF CAPACITY	DPL OWNERSHIP SHARE
Beckjord 6	2008	210.0	50.00%
Conesville 4	2020	128.7	16.50%
East Bend 2	2021	186.0	31.00%
Hutchings 1	2010	58.0	100.00%
Hutchings 2	2010	56.0	100.00%
Hutchings 3	2010	64.0	100.00%
Hutchings 4	2010	64.0	100.00%
Hutchings 5	2010	64.0	100.00%
Hutchings 6	2010	64.0	100.00%
Hutchings 7	2010	33.0	100.00%
Killen Station 2	2025	402.0	67.00%
Killen GT 1	2025	18.1	67.00%
Miami Fort 7	2015	180.0	36.00%
Miami Fort 8	2018	180.0	36.00%
Monument	2010	12.0	100.00%
Sidney	2010	12.0	100.00%
Stuart	2021	3.2	35.00%
Stuart 1	2021	204.8	35.00%
Stuart 2	2021	204.8	35.00%
Stuart 3	2021	204.8	35.00%
Stuart 4	2021	204.8	35.00%
Tait 1	2030	100.0	100.00%
Tait 2	2030	102.0	100.00%
Tait 3	2030	102.0	100.00%
Tait 4	2010	10.0	100.00%
Yankee 1	2010	22.0	100.00%
Yankee 2	2010	22.0	100.00%
Yankee 3	2010	22.0	100.00%
Yankee 4	2010	18.0	100.00%
Yankee 5	2010	18.0	100.00%
Yankee 6	2010	18.0	100.00%
Yankee 7	2010	18.0	100.00%
Zimmer 1	2031	365.3	28.10%
		3,370.2	

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

	1999	2000	2001
Production Plant Accum Book Depreciation (Jan 1)			
Station			
Beckjord	40,539	42,731	44,968
Conesville	20,558	21,744	22,934
East Bend	81,568	87,148	92,789
Hutchings	74,234	77,862	81,654
Killen Station	166,493	178,166	189,900
Miami Fort	69,455	73,676	77,938
Monument	1,085	1,086	1,088
Sidney	1,074	1,076	1,077
Stuart	148,366	157,344	166,370
Tait	20,365	28,906	37,459
Yankee	13,124	13,189	13,254
Zimmer	308,958	351,092	393,374
Total	945,806	1,034,038	1,122,803
Production Plant Net Book Value (Jan 1)			
Station			
Beckjord	16,472	14,020	13,103
Conesville	10,375	9,698	8,849
East Bend	69,857	65,920	65,737
Hutchings	34,027	30,992	31,800
Killen Station	213,852	204,249	196,312
Miami Fort	55,024	56,800	53,864
Monument	107	105	104
Sidney	106	104	103
Stuart	97,218	95,011	103,878
Tait	57,809	49,579	41,026
Yankee	1,190	1,125	1,060
Zimmer	883,561	848,499	815,402
Total	1,238,414	1,176,101	1,139,528
Gross Book Value of General Plant (Jan 1)			
Station			
Beckjord	872	1,252	1,295
Conesville	482	662	715
East Bend	2,358	3,388	3,602
Hutchings	1,898	2,421	2,604
Killen Station	5,920	8,501	8,792
Miami Fort	1,838	2,783	2,879
Monument	19	27	28
Sidney	18	26	27
Stuart	3,824	5,481	5,679
Tait	1,217	1,748	1,808
Yankee	223	320	331
Zimmer	15,456	22,193	22,952
Total	34,014	48,541	50,512

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

	1999	2000	2001
Net Book Value of General Plant (Jan 1)			
Station			
Beckjord	338	667	637
Conesville	186	382	387
East Bend	910	1,874	1,900
Hutchings	650	1,297	1,252
Killen Station	2,284	4,730	4,829
Miami Fort	748	1,627	1,629
Monument	7	14	14
Sidney	7	14	14
Stuart	1,475	3,040	3,082
Tait	470	976	1,002
Yankee	86	171	166
Zimmer	5,962	12,412	12,766
Total	13,121	27,105	27,577

	1999	2000	2001
Total Gross Book Value (Jan 1)			
Station			
Beckjord	56,884	55,003	56,364
Conesville	31,415	32,191	32,298
East Bend	153,763	156,482	162,028
Hutchings	109,947	111,275	115,758
Killen Station	386,086	390,936	394,004
Miami Fort	126,415	132,259	144,372
Monument	1,210	1,218	1,219
Sidney	1,198	1,206	1,207
Stuart	249,406	257,847	275,926
Tait	79,379	80,233	80,292
Yankee	14,637	14,634	14,646
Zimmer	1,007,963	1,021,794	1,031,726
Total	2,218,298	2,257,960	2,312,843

	1999	2000	2001
Total Net Book Value (Jan 1)			
Station			
Beckjord	15,809	14,666	13,740
Conesville	10,581	10,078	9,036
East Bend	70,787	67,796	67,637
Hutchings	34,577	32,289	32,852
Killen Station	215,968	208,979	200,141
Miami Fort	56,772	67,327	65,083
Monument	114	119	117
Sidney	113	118	116
Stuart	98,683	99,051	106,960
Tait	56,276	50,656	42,026
Yankee	1,276	1,297	1,226
Zimmer	989,513	880,911	826,187
Total	1,251,536	1,202,208	1,187,105

RLL Attachment 1

DAYTON POWER & LIGHT GENERATING STATION STRANDED COST

	1999	2000	2001
Fuel Inventory			
(Jan 1)			
Station			
Beckjord	792	812	832
Conesville	1,265	1,296	1,329
East Bend	1,469	1,505	1,543
Hutchings	7,043	7,219	7,400
Killen Station	4,995	5,120	5,248
Miami Fort	2,427	2,488	2,550
Monument	40	41	42
Sidney	42	43	44
Stuart	9,155	9,384	9,619
Taft	2,765	2,834	2,905
Yankee	1,145	1,173	1,203
Zimmer	1,842	1,888	1,935
Total	32,960	33,805	34,650
Working Capital			
Station			
Beckjord			1,492
Conesville			869
East Bend			1,600
Hutchings			1,462
Killen Station			1,945
Miami Fort			2,353
Monument			17
Sidney			17
Stuart			3,939
Taft			130
Yankee			78
Zimmer			2,639
Total			16,561
Net Investment			
(Jan 1, 2001)			
Station			
Beckjord			16,326
Conesville			10,792
East Bend			55,665
Hutchings			43,332
Killen Station			148,780
Miami Fort			81,479
Monument			172
Sidney			172
Stuart			116,561
Taft			46,302
Yankee			2,449
Zimmer			489,305
Total			971,319

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of J. Edward Hess on Behalf of Industrial Energy Users-Ohio, Public Version,* was served upon the following parties of record this 1st day of March 2013, *via* electronic transmission, hand-delivery or first class U.S. mail, postage prepaid.

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