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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 Electric Security Plan.	: : :	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 the 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

REDACTED

PREFILED TESTIMONY OF HISHAM M. CHOUEIKI, PH.D., P.E.

MARKET ANALYSIS & PLANNING DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit _____

March 11, 2013

EMPLOYER

1. Q. Please state your name, position, and business address.

   A. My name is Hisham Choueiki. I am employed by the Public Utilities Commission of Ohio (PUCO or Commission) as a Senior Energy Specialist. My business address is 180 East Broad Street, Columbus, Ohio 43215.

ACADEMIC BACKGROUND AND PROFESSIONAL EXPERIENCE

2. Q. Please describe your educational background and professional experience.

   A. I am a Registered Professional Engineer in Ohio. I hold a Bachelor of Science, a Master of Science, and a Philosophy Doctorate in Industrial and Systems Engineering, all from The Ohio State University.

   I currently serve as a Senior Energy Specialist in the Planning and Market Analysis Division in the Energy and Environment Department at the Public Utilities Commission of Ohio.

   I started my career in utility regulation as a Graduate Researcher at the National Regulatory Research Institute while attending graduate school. My tenure at the PUCO commenced when I joined the Forecasting Division as a Senior Utility Rate Analyst. I was later promoted to a Utility Rate Analyst Manager, an Energy Specialist, and finally to my current position.

Between 1996 and 1998, I was on sabbatical from the PUCO, and was a Visiting Assistant Professor in the College of Engineering and Petroleum at Kuwait University where I taught operations research, design of experiments, and forecast modeling, and was also an energy consultant for the Kuwaiti government.

At the PUCO, I have contributed to numerous rule-making proceedings in gas, electric, and telephone, co-authored several energy forecasting and telecommunications reports, lectured at the PUCO and at national and international technical conferences in the areas of forecast modeling, design of experiments, and artificial neural networks, and have published in peer-reviewed engineering journals.

3. Q. Please describe some of your present responsibilities at the PUCO.

A. I am a technical/policy advisor to PUCO Commissioners and Senior Staff. I have several other major responsibilities; including a) the development of empirically valid, and logically consistent, short-term and long-term analytical forecasting models for assessing and characterizing the behavior of energy and economic systems in utility service areas in Ohio, and in the United States, and b) the review of the long-term forecast reports of electric distribution utilities in Ohio. I currently serve as a member of the Staff Steering Committee in the Organization of PJM States, Inc. (OPSI), and the co-chair of the Staff Modeling Work Group in the Eastern Interconnect States Planning Council (EISPC). I also serve as a reviewer for several engineering journals; including IEEE Transactions on Power Systems, IEEE Transactions on Neural Networks, Computers and Industrial Engineering, and European Journal of Industrial Engineering.

4. Q. Have you testified in previous cases at the PUCO?

A. Yes, I have testified in long-term forecast hearings, telecommunications alternative regulation hearings, telecommunications merger hearings, and, more recently, in 10-388-EL-SSO and 11-346-EL-SSO.

PURPOSE OF TESTIMONY

5. Q. What is the purpose of filing this testimony?

A. I will discuss three issues in my testimony:

a. I will address the length of the electric security plan (ESP) as proposed by Dayton Power and Light (DP&L or the Company) and as revised by Staff.

b. I will discuss Staff's position in regard to the switching tracker proposed by DP&L to be recovered during the blending period of the ESP.

c. Lastly, I will discuss Staff's position and recommended revisions to the Service Stability Rider (SSR) that the Company is requesting to charge annually to preserve its financial integrity and to have an opportunity to earn a reasonable rate of return on equity (ROE).

LENGTH OF THE ESP PERIOD

6. Q. What is the length of the ESP period proposed by the Company?

A. The Company is proposing a five-year ESP period that commences on January 1, 2013 and concludes on December 31, 2017 (Company application, page 2).

7. Q. Is the five-year period acceptable to Staff?

A. No. As we go farther into the future, the uncertainty increases. There are no transparent forward capacity market prices in PJM post May 31, 2016. PJM's capacity prices for the 2016/2017 and 2017/2018 planning years will not be known until May of 2013 and May of 2014, respectively. Accordingly, Staff is unable to estimate accurately the capacity revenues of the Company during the last two years of the proposed ESP.

Additionally, the capital expenditures proposed by the Company in the later years (specifically, years four and five) to retrofit and/or upgrade some of its generating units are not "officially" approved expenditures until they become a part of the Company's capital budget.

The lack of reliable knowledge about future capacity revenues and "approved" capital expenditures in years four and five introduces a high degree of uncertainty to the financial revenue streams presented by Company witness Jackson in his Second Revised Exhibit CLJ-2 (and to the supporting internal documents – Staff Data Request No. 11). Therefore, Staff is neither willing to accept the Company's forecasts of future revenues and expenditures in years four and five, nor is Staff willing to apply any adjustments to the revenues and expenses proposed by the Company in years four and five.

8. Q. What is Staff's recommendation for an ESP period?

A. Since it is already March of 2013, and given the response to the previous question, it is Staff's recommendation that the Commission approve a three-year ESP period for the Company commencing on June 1, 2013 and concluding on May 31, 2016.

SWITCHING TRACKER

9. Q. Why is the Company proposing to include a switching tracker in its ESP?

A. The significant increase in customer switching has caused a financial stress on the Company (Company witness Jackson, page 12). According to the Company, when customers switch to competitive retail electric service (CRES) providers, retail generation revenues are lost. As of August 30, 2012, 61.7%[1] of the Company's retail load has switched to an alternative CRES provider (Company witness Hoekstra, page 6). Given the sharp increase in customer switching, the Company proposes, in its application, to set up a switching tracker account that will defer for later recovery the value of the lost retail megawatt-hour (MWH) sales above the 62%.

10. Q. When would the tracker account open and when would it close?

A. The tracker account would open when the Company begins operating under a new ESP and would close when the Company's entire load is auctioned off on June 1, 2016 (Company witness Jackson, page 11).

11. Q. How does the Company propose to estimate the dollars in the switching tracker account?

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1 All through the Company application and testimonies, this number is rounded up to 62%.

A. DP&L proposes to tally the monthly switching rate, in MWHs, above the 62%. Once determined, the amount of MWHs above the 62% is multiplied by the difference between the blended standard service offer (SSO) rate and the competitive bid (CB) or market rate. The net result for each month (a dollar value) is then placed in the switching tracker account.

12. Q. How does the Company propose to recover the amount of dollars placed in the switching tracker account?

A. DP&L proposes to place the monthly switching tracker dollars in a regulatory asset account that would also accrue carrying charges. Beginning with January 1, 2014, the Company would commence the recovery of the amount of moneys that accumulated in the switching tracker account during the pervious year. In other words, the entire amount of switching tracker dollars accumulated during 2013 plus carrying charges would be recovered during 2014. Similarly, the amount of switching tracker dollars accumulated during 2014 would be recovered during 2015. This will continue until the Company's retail load is all auctioned off on June 1, 2016.

13. Q. What is the Staff position in regard to the switching tracker?

A. The concept of a switching tracker mechanism, in Staff's opinion, is anti-competitive, and violates the spirit of several of the state policy goals set forth in R.C. 4928.02.

The Company is asking the Commission to grant them a recovery mechanism for losses in retail generation sales to CRES providers. Retail generation service has been deemed competitive for more than ten years in Ohio. For the Company to be asking for relief from the Commission for a service that has been deemed competitive for more than a decade in Ohio is, in Staff's opinion, based on flawed logic.

DP&L has had ample opportunities to prepare for competition. Senate Bill 3 was signed into law more than a decade ago. Additionally, DP&L, back in 2005, "embraced the market" by opting to fully engage its generation fleet in PJM's capacity market – the Reliability Pricing Model (RPM).[2] Unfortunately for the Company, the market prices for capacity during the 2012/2013 and 2013/2014 planning years decreased to about $16/MW-Day and $27/MW-Day, respectively. The Company should have been strategically planning for the long-term, setting itself up to be more lean

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[2] DP&L opted for the RPM capacity construct since the inception of RPM, and has participated in nine base residual auctions: 2007/2008, 2008/2009, ..., 2015/2016.

and adaptable to price uncertainties in the energy and capacity markets, and preparing for competition in Ohio.

Lastly, DP&L's unregulated affiliate, DPL Energy Resources (DPLER), is a significant CRES provider in DP&L's service area. A request for relief by DP&L for lost retail sales to its unregulated affiliate, DPLER, is an unreasonable request at best.

14. Q. What is Staff's recommendation in regard to the switching tracker?

A. Staff recommends that the Commission deny the Company's request for the establishment of a switching tracker account.

SERVICE STABILITY RIDER (SSR)

15. Q. Why is the Company proposing to include an SSR in its ESP?

A. DP&L proposes to recover a fixed non-bypassable SSR charge to ensure that the financial integrity of the Company is not compromised. The Company projects that its return on equity will decrease due to the declining energy and capacity market prices, the significant increase in customer switching, and the transition to a 100% retail auction for standard service offer supply (Company witness Jackson, page 2).

16. Q. Under what statutory authority is the Company asking the Commission to grant it the SSR?

A. The Company claims that R.C. 4928.143(B)(2)(d) allows an electric distribution utility to seek from the commission the establishment of terms, conditions, and charges for the purpose of "stabilizing or providing certainty regarding retail electric service" (Company Application, page 22).

17. Q. What is the Company's proposed SSR charge in its application?

A. DP&L proposes an SSR charge of $137.5 million per year for five years. The proposed $137.5 million charge was derived in Company witness Jackson's testimony by simply targeting an average ROE over the five-year proposed ESP (the "as filed" ROE).

18. Q. Does the Staff agree with the establishment of an SSR?

A. Yes. Staff also notes that the Commission has granted similar charges to other utilities based on R.C. 4928.143(B)(2)(d).[3]

19. Q. Does the Staff agree with the Company that, absent the SSR charge, its financial integrity will be compromised?

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[3] The Commission has granted similar non-bypassable charges in Case Nos. 11-346-EL-SSO and 11-3549-EL-SSO.

A. Staff does not take a position on the financial integrity claim. The Commission will have to make that finding based on the record that is presented in this case.

20. Q. To the extent the Commission agrees with the Company that an SSR charge is necessary to maintain its financial integrity, does the Staff agree with the Company's proposed SSR charge?

A. No.

21. Q. Does the Staff have a recommended alternative SSR charge?

A. Yes. Should the Commission find that absent an SSR charge, the Company's financial integrity would be compromised, Staff's recommendation is for the Commission to grant an SSR charge for a period of only three years; *i.e.* during the Staff recommended ESP period. Staff witness Mahmud presents in his testimony two estimates of an SSR charge for the Commission to consider.

22. Q. Did Staff witness Mahmud apply an adjustment to the Company's projected revenues to reflect Staff witness Strom's recommendation of going to a 100% auction one year earlier than proposed by the Company in its application?

A. The adjustment for going to a 100% auction one year earlier was not accounted for in Staff Mahmud's analysis. Although Staff recognizes the <u>loss</u> in retail revenues that the Company might experience as a result of transitioning to market one year earlier, Staff also recognizes that the projected annualized switch rates that Company witness Chambers relied upon to estimate the Company's retail revenues in Second Revised WJC-3.B are not reasonable[4]. Staff believes more reasonable switch rates for 2013, 2014, and 2015 would be in the 65% to 75% range (See Exhibit HMC-1 for illustration). The latter adjustment to the projected switch rates in Chambers WJC-3.B would have cause an <u>increase</u> in the Company's retail revenues.

23. Q. What additional measures should the Company take to maximize its generation revenues during the ESP period?

A. The Company is in the best position to plan and manage its generation fleet optimally with the objective of maximizing its revenues. Forward energy and capacity prices are available in the market at least four years in advance, and three years in advance, respectively. It is, therefore, expected

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4 The latest switching statistics report on the Commission website shows a 61.97% switch rate for the month of December 2012 in the DP&L service territory. Staff also computed the historical annualized switch rates: 30.39%, 46.60%, and 57.69% for the years 2010, 2011, and 2012 for the DP&L Company. The annualized switch rate projections developed in Company witness Hoekstra's testimony on page 8 are not consistent with the historical rates. http://www.puco.ohio.gov/emplibrary/files/util/MktMonitoringElecCustSwitchRates/SWITCH%20RATES%20SALES/2012/4Q2012.pdf.

of the Company to develop and implement efficiency algorithms for managing its generation fleet by minimizing its investment and operational costs and analyzing its risk. There is a large body of literature in the industry that demonstrates the successful implementation of efficiency algorithms in power systems planning.

The Company should be expected to manage its freed-up generation optimally via: 1) bi-lateral contracts for energy and capacity, 2) day-ahead and balancing energy markets, 3) ancillary services markets, 4) participation in other utilities' SSO retail auctions, *etc*... Such endeavors, in Staff's opinion, will more than compensate the Company for the current low commodity prices and for transitioning to a 100% auction.

24. Q. If the Commission finds that the Company's financial integrity will be compromised absent an SSR charge, what is Staff's recommended annual SSR charge?

A. Per the analysis presented by Staff witness Mahmud, it is recommended that the Commission grant the Company an annual SSR charge of $133 million commencing on June 1, 2013 and concluding on May 30, 2016[5].

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[5] Staff recommends that the SSR charge expire one day prior to the Staff-recommended expiration of the ESP.

This charge is based on the average "as filed" targeted ROE included in Company witness Jackson's testimony.

Should the Commission decide to award the Company an alternative to the "as filed" average ROE requested, Staff recommends an average targeted ROE of no more than 7%[6] over the three-year ESP period. This would result in an annual SSR charge of $151 million commencing on June 1, 2013 and concluding on May 30, 2016.

To the extent the Commission grants an SSR charge to DP&L, Staff recommends that the revenues collected stay with DP&L and not be transferred to any of DP&L's current, or future-formed, affiliates or subsidiaries.

SUMMARY AND RECOMMENDATIONS

25. Q. Would you summarize your recommendations?

A. Staff recommends that the Commission grant DP&L a three-year ESP period commencing on June 1, 2013 and concluding on May 31, 2016.

Second, Staff recommends that the Company's request for the establishment of a switching tracker account be denied by the Commission.

[6] The 7% ROE is a rate deemed in the range of reasonableness per the Commission Opinion and Order in Case No. 11-346-EL-SSO.

The concept of requesting a switching tracker is logically flawed and anti-competitive.

And finally, should the Commission find that absent an SSR charge, DP&L's financial integrity will be compromised, Staff recommends that the Company be granted an annual SSR charge of $133 million based on the "as filed" targeted ROE or an SSR charge of not more than $151 million based on a targeted three-year average ROE of 7%.

26. Q. Doe this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Hisham M. Choueiki (Redacted), submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties listed below, this 11th day of March, 2013.

/s/ Thomas W. McNamee

Thomas W. McNamee
Assistant Attorney General

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Exhibit HMC-1
Switch Rate Statistics: Historical and Projected

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