BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the Significantly Excessive Earnings Test under Section 4928.143(F), Ohio Revised Code, and Rule 4901:1-35-03(C)(10), Ohio Administrative Code for The Dayton Power and Light Company	:	Case No. 15-0928-EL-UNC

THE DAYTON POWER AND LIGHT COMPANY'S NOTICE OF FILING SUPPLEMENT FOR ADMINISTRATION OF THE SIGNIFICANTLY EXCESSIVE EARNINGS TEST

On May 15, 2015, The Dayton Power and Light Company ("DP&L") filed its Application for Administration of the Significantly Excessive Earnings Test ("Application). By way of this Notice, DP&L provides the following to supplement to its Application: Supplemental testimony of Craig Forestal with Exhibits CAF-6 and CAF-7.

Respectfully submitted,

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BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

CASE NO. 15-0928-EL-UNC

ANNUAL CALENDAR 2014 FILING REQUIRED BY RULE 4901:1-35-10, OHIO ADMINISTRATIVE CODE

SUPPLEMENTAL DIRECT TESTIMONY

OF CRAIG A. FORESTAL, CPA

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

Q. What is the purpose of this supplemental testimony?

A. The purpose of this testimony is to: (1) supplement my direct testimony filed in this case on May 15, 2015, which, among other things, supports the calculation of the Company's Return on Equity ("ROE"); (2) provide the accounting and financial information required by Section 4901:1-35-10 of the Ohio Administrative Code regarding the Significant Excessive Earnings Test ("SEET"); and (3) conclude that <u>significantly excessive earnings did not occur at the utility for the year 2014.</u>

Q. Why is your earlier testimony being supplemented?

A. As stated in my direct testimony filed May 15, 2015, a calculation of ROE excluding wholesale margin was not included. During the course of preparing the calculation of wholesale margin to exclude from ROE, it became evident that due to the introduction of competitive bidding in 2014 and the level of standard service offer customers who have chosen to receive generation from another source, it was necessary to modify the calculation. The time we allotted for completing the SEET schedules was based on the established method and was insufficient for building a new method of calculating wholesale margin.

Q. Have you now included a calculation of ROE which excludes wholesale margin?

A. Yes.

Q. Are you supplementing exhibits filed in this matter with your direct testimony?

A. Yes.

I. EXHIBITS AND DISCUSSION

Q. Please list the exhibits which are being supplemented.

A. **The following exhibits were not included in the initial filing and are therefore supplemental:**

Exhibit CAF-6: Return on Equity Pro Formas – Without Sales for Resale Margins

Exhibit CAF 7: Sales for Resale Margin – Equity Adjustment

Q. Please explain Exhibit CAF-6, Calculation of Per Books Return on Equity without Sales for Resale Margins.

A. Exhibit CAF-6 demonstrates the removal of the margin from sales for resale from the ROE calculation. The Commission Order on Case No. 09-786-EL-UNC requested the presentation of the ROE with and without the sales for resale to determine if they should or should not be included in the SEET

I started with the Earnings for Common and Common Equity previously developed on Exhibit CAF- 2. From the earnings for common, I removed the sales for resale margin, net of tax, to arrive at the adjusted earnings for common. For the common equity, I generally followed the process laid out by Company Witness Greg Campbell in DP&L's 2012 SEET filing in Case No. 13-1495-EL-UNC and by PUCO Staff Witness Cahaan in Case No. 10-1261-EL-UNC. Case No. 10-1261-EL-UNC involved Columbus Southern Power Company and Ohio Power Company, two Ohio subsidiaries of AEP. Witness Cahaan's process reduces the common equity for the portion of the equity related to the generation plant associated with sales for resale. The allocation percentages used on Lines 18 and 19 are calculated on Exhibit CAF-7.

After removing the sales for resale margin and adjusting the common equity, the ROE for 2014 is 9.4%. This figure is the appropriate amount to compare to the established SEET threshold of 12% because the SEET review should only take into consideration significantly excessive earnings associated with the Ohio jurisdiction, and should not include Company returns that are regulated by the FERC. The removal of the sales for resale margin is consistent with the Commission's Opinion and Order in AEP's SEET Case No. 10-1261-EL-UNC and DP&L's SEET Case No. 13-1495-EL-UNC. Therefore, it is reasonable to remove the sales for resale margin from DP&L's adjusted ROE.

Q. Can you please describe the change made to the calculation of Sales of Resale?

A. Yes. The primary change is that in this year's calculation, we have allocated a greater portion of operating expenses and general and administrative expenses to sales for resale, as a greater portion of our operations are now supporting sales for resale. Additionally, fuel and purchase power costs have been aligned with calculations used in DP&L's fuel adjustment clause proceedings.

Q. What are the calculations on Exhibit CAF-7, Sales for Resale – Equity Adjustment?

A. This exhibit develops the equity adjustment percentages used in determining the equity associated with Ohio Retail Jurisdictional SSO customers in Exhibit CAF-7, Page 1, by providing the ratios used to back out the equity associated with generation relating to sales for resale customers. The top portion of the exhibit calculates the ratio of sales for resale dollars in calendar 2014 to the sum of the sales to ultimate customers and sales for resale customers. There is an adjustment needed on Line 5 of the exhibit to remove the PJM Interconnection revenues included in FERC Account No. 447 that are associated with Ohio Retail Jurisdictional SSO customers. An example would be for the portion of the PJM Interconnection auction revenues that are part of the Reliability Pricing Model (RPM) Rider.

The bottom portion of the exhibit averages the net book value of the production plant for the year and compares it to the average net book value of total plant for the year.

As discussed, this exhibit generally follows the process laid out by PUCO Witness Cahaan in Case No. 10-1261-EL-UNC.

Q. Has the Commission established a SEET threshold applicable to DP&L?

A. Yes. As explained in my original testimony, in Case Nos. 12-0426-EL-SSO, *et al*. approved by the PUCO on September 4, 2013, I understand that the Commission established a threshold ROE of 12%.

II. CONCLUSION

Q. Please summarize your testimony.

A. In summary, the two supplemental exhibits demonstrate the removal of the margin from sales for resale from the ROE calculation as the Commission Order on Case No. 09-786-EL-UNC requested. These schedules demonstrate that DP&L's ROE excluding the effects of sales for resale is below the SEET threshold of 12% and therefore, significantly excessive earnings did not occur for calendar year 2014.

Q. Does this conclude your direct testimony?

A. Yes, it does.

The Dayton Power and Light Company
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Return on Equity Pro Formas - Without Sales for Resale Margins

Line No. (A)	Description (B)	Calendar 2014 Income Statement (C) ($000's)	Balance Sheet December 31, 2013 (D) ($000's)	Balance Sheet December 31, 2014 (E) ($000's)	Average Beginning and Ending Balances (Col. (D)+(E))/2 = (F) ($000's)	Comments (G)
1	Earnings for Common					
2	Net Income	115,022				2014 FERC Form 1, Page 117, Line 71, Col (C)
3	Preferred Dividends	(867)				2014 FERC Form 1, Page 118, Line 29, Col (C)
4	Earnings for Common	114,155				Line 2 plus Line 3
5	Accrued Penalty in Account 426.3	51				2014 FERC Form 1, Page 117, Line 47, Col (C)
6	Fixed Asset Impairment, Net of Tax	-				2014 Impairment; Income Statement
7	Sales for Resale Margin, Net of Tax	(25,701)				Accounting Records
8	Adjusted Earnings for Common	88,505				Sum of Lines 4 thru 7
9	Common Equity					
10	Proprietary Capital		1,226,702	1,166,224	1,196,463	2014 FERC Form 1, Page 112, Line 16
11	Preferred Stock Outstanding		(22,851)	(22,851)	(22,851)	2014 FERC Form 1, Page 112, Line 3
12	Common Equity		1,203,851	1,143,373	1,173,612	Line 10 plus Line 11
13	Reduction of Accrued Penalty in Account 426.3		(169)	51	(59)	Line 5
14	Fixed Asset Impairment		58,252	58,252	58,252	Per Accounting Records
15	Adjusted Common Equity		1,261,934	1,201,676	1,231,805	Sum of Lines 12 thru 14
16	Estimation of Amount of Equity for Sales for Resale					
17	Adjusted Common Equity				1,231,805	Line 15
18	Amount of Equity Supporting Generation Plant	55.7% (a)			686,115	Line 17 times Col (C)
19	Allocation of Generation Related Equity to Sales for Resale	42.4% (a)			290,913	Line 18 times Col (C)
20	Common Equity Excluding Amount for Sales for Resale				940,892	Line 15 less Line 19
21	Return on Equity - Without Sales for Resale				9.4%	Line 8 divided by Line 20

(a) From Exhibit CAF-7.

The Dayton Power and Light Company
Case No. 15-0928-EL-UNC

Sales for Resale - Equity Adjustment

Line No. (A)	Description (B)	Calendar 2014 Income Statement (C) ($000's)	Balance Sheet December 31, 2013 (D) ($000's)	Balance Sheet December 31, 2014 (E) ($000's)	Average Beginning and Ending Balances (Col. (D)+(E))/2 = (F) ($000's)	Comments (G)
1	Sales to Ultimate Customers in 2014	868,168				2014 FERC Form 1, Page 300, Line 10, Col (B)
2	Sales for Resale in 2014	835,266				2014 FERC Form 1, Page 300, Line 11, Col (B)
3	Total Sales in 2014	1,703,434				2014 FERC Form 1, Page 300, Line 14, Col (B)
4	Sales for Resale in 2014	835,266				Line 2
5	PJM Amounts in Sales for Resale Associated with SSO Customers	(113,472)				Accounting Records
6	Net Sales for Resale	721,794				Line 4 plus Line 5
7	Percentage of Sales for Resale to the Total	42.4%				Line 6 divided by Line 3
8	Production Plant					
9	Plant In Service		3,006,560	2,962,754	2,984,657	FERC Form 1, Page 204-205, Line 46, Col (B) and (G)
10	Accumulated Depreciation		(1,552,436)	(1,547,245)	(1,549,841)	FERC Form 1, Page 219, Line 20 plus Line 24
11	Net Book Value		1,454,124	1,415,509	1,434,817	Line 9 less Line 10.
12	Total Plant					
13	Plant In Service		5,097,951	5,114,370	5,106,161	FERC Form 1, Page 206-207, Line 104, Col (B) and (G)
14	Accumulated Depreciation		(2,504,663)	(2,551,922)	(2,528,293)	FERC Form 1, Page 219, Line 29
15	Net Book Value		2,593,288	2,562,448	2,577,868	Line 13 less Line 14
16	Average Production Plant as Percentage of Total Plant				55.7%	Line 11 divided by Line 15

The above format is similar to PUCO Witness Richard Cahaan's in Case No. 10-1261-EL-UNC.