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Via E-File

February 27, 2017

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case Nos. 16-0395-EL-SSO, 16-0396-EL-ATA and 16-0397-EL-AAM

Dear Sir/Madam:

Please find attached the PUBLIC VERSION of the DIRECT TESTIMONY AND EXHIBITS OF LANE KOLLEN IN RESPONSE TO STIPULATION on behalf of the OHIO ENERGY GROUP (OEG) e-filed today in the above-referenced matter. The original and (3) copies of the CONFIDENTIAL pages for filing under seal will follow by overnight mail.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Encl.
Cc: Certificate of Service
Bryce McKenney, Attorney Examiner
Gregory Price, Attorney Examiner

BEFORE THE

PUBLIC UTILITY COMMISSION OF OHIO

In The Matter Of The Application Of Dayton Power And Light Company For Approval of its Electric Security Plan	:	Case No. 16-0395-EL-SSO
In The Matter Of The Application Of The Dayton Power And Light Company For Approval of Revised Tariffs	:	Case No. 16-0396-EL-ATA
In The Matter Of The Application Of Dayton Power And Light Company For Approval Of Certain Accounting Authority Pursuant to Ohio Rev. Code §4905.13	:	Case No. 16-0397-EL-AAM

DIRECT TESTIMONY

AND EXHIBITS

IN RESPONSE TO STIPULATION

OF

LANE KOLLEN

ON BEHALF OF THE
THE OHIO ENERGY GROUP

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

February 2017

BEFORE THE

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DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

Qualifications

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of The Ohio Energy Group ("OEG"), a group of large industrial customers served by Dayton Power and Light ("DP&L" or "Company" or "Utility"). OEG members participating in this intervention are Cargill, Incorporated and General Motors LLC.

Q. Did you previously file testimony in this proceeding?

A. Yes. I filed Direct Testimony which addressed the Company's collect $145 million through a proposed Distribution Modernization Rider ("DMR"). I recommended that the Commission reject the DMR. I based this recommendation on the determination that AES Corporation ("AES" or "AES Corporation") caused the financial distress at DPL Inc. ("DPL Inc." or "Unregulated Holding Company") and the Utility. AES caused the Unregulated Holding Company to assume $1.25 billion in new debt to finance the AES acquisition of DPL Inc., and more specifically, the acquisition premium (goodwill) that AES paid. The Commission prohibited recovery of the AES acquisition costs from the Utility's customers as a condition of its approval of the acquisition in Case No. 11-3002-EL-MER ("AES Merger Case"). I also noted that AES Corporation itself could solve the problems at DPL Inc. and DP&L through additional equity investment in DPL Inc., but has chosen not to do so, instead relying on additional rate increases on the Utility's customers.

In the alternative, I recommended that the Commission authorize a DMR of no more than $60 million annually and that it make the DMR contingent on: 1) AES equity investments in DPL Inc. and DP&L of at least $60 million annually to match the DMR collections from retail customers; 2) DPL Inc. and DP&L repayments of at least $100 million in outstanding debt annually; 3) no dividends from DPL Inc. to AES Corporation and no dividends from DP&L to DPL Inc. from the after tax DMR income or AES Corporation equity investments; and 4) DP&L sale or transfer of the unregulated generating assets along with a reduction or transfer of a proportionate amount of debt.

I also recommended that the DMR be limited to a three-year term, subject to a potential extension of no more than two years.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the non-unanimous Stipulation and Recommendation ("Stipulation") filed by the Company on February 3, 2017.

Summary of Testimony

Q. Please summarize your primary recommendations and findings.

A. For the reasons stated in my original testimony, I recommend that the Commission reject the Stipulation. If the Commission does not reject the Stipulation, then it should be modified.

I recommend that the Commission reject the DIR-B. The DIR-B requires consumers to pay $610 million over 33 years for $175 million of new discretionary capital expenditures for equipment that is unnecessary for safety or reliability. The DIR-B will result in a windfall for DP&L and DPL Inc. because the capital expenditures collected in real-time through the DIR-B will be added to rate base at the end of the DIR-B. In all other ratemaking contexts, customer provided capital (such as DIR-B) is treated as a reduction to rate base to lower rates, not included as "free" rate base to increase rates.

The DIR-B will allow the Utility to collect the cost of the DIR-B capital expenditures twice, once through the DIR-B during its five year term as the capital expenditures are incurred, and then a second time for the same expenditures by including the return on and of these costs in the DIR-A. The DIR-B capital expenditures (such as Green Button Connect My Data and Electric Vehicle Infrastructure) are over and above the Company's base case capital budget and are not necessary for safety or reliability.

Over the first five years of the ESP, the DIR-B provides no credit support benefit to DP&L and almost no benefit to DPL Inc. in terms of improved credit metrics. This occurs because DP&L must expend cash to invest $35 million annually in these unnecessary capital expenditures. Over the first five years of the ESP, the DIR-B will result in a reduction in cash at DP&L and a reduction in DP&L dividends to DPL Inc., not more.

I recommend that the Commission add a condition to the Stipulation that makes the $90 million per year DMR contingent on AES permanently foregoing DPL Inc. income tax payments that are presently due and will continue to accrue during the ESP by converting this liability into additional equity investments. These equity conversions will require no additional cash investments by AES Corporation, but will significantly improve DPL Inc.'s credit metrics. This is the absolute minimum that AES can do to address the financial problems that it created.

The Company's financial analysis in support of the Stipulation is flawed and overstates the financial need of DPL Inc. Among other problems, the financial model does not include any additional TCRR-N revenues for increases in transmission costs or DIR-A revenues for increases in distribution costs.

The combination of the DMR at $90 million, additional revenues from the TCRR-N and DIR-A, avoided capital expenditures pursuant to the DIR-B, and an "equity conversion" of DPL Inc. tax payments due to AES Corporation will result in a higher indicated debt rating for DPL Inc. than the Stipulation as it was modeled by the Company. In other words, the recommendations I make and corrections to the financial model will lower rates to consumers by $610 million over 33 years and improve the credit metrics of DPL Inc.

I recommend that the Utility not make investments in merchant renewable generation at a time when it should use all available capital to pay down debt.

I recommend that the Commission require the Utility to reduce the DMR if there is a reduction in the federal corporate income tax rate. The DMR revenues are before tax amounts and reflect recovery of income tax expense at the present federal income tax rate of 35%. Therefore, if the federal income tax rate is reduced, the DMR revenues should be reduced.

I recommend that the Section IV. Economic Development Rider provisions of the Stipulation be open to all intervenors in this case, not just Signatory or Non-Opposing Parties. The MW demand and load factor eligibility criteria for the economic development rates should be deemed satisfied if the customer met the criteria any time during 2016.

I have no objection to the rate design of the DMR and other new riders.

Finally, I reiterate my recommendation that the Commission limit the DMR to a three-year term, with a potential to extend it another two years.

II. THE DIR-B WILL COST CONSUMERS $610 MILLION OVER 33 YEARS FOR $175 MILLION OF UNNECESSARY CAPITAL EXPENDITURES, PROVIDES THE UTILITY WITH A "FREE" RATE BASE FINANCIAL WINDFALL, FORCES CUSTOMERS TO PAY FOR THOSE COSTS ONCE THROUGH THE DIR-B AND THEN A SECOND TIME THROUGH THE DIR-A, AND DOES NOT SIGNIFICANTLY IMPROVE THE CREDIT METRICS OF DPL INC. OR DP&L

Q. Please describe the DIR-B rider set forth in Section II.2.d of the Stipulation.

A. The DIR-B initially will collect $35 million annually for five years plus additional amounts for depreciation, or a total of $187.5 million from 2017 through 2021.[1] The DIR-B requires that the Company invest $35 million annually for five years in new distribution projects that are not presently included in its capital budget and are not necessary for safety or reliability. Starting in 2022, the Company will collect a return on and of the same costs a second time through the DIR-A. The Company will collect an additional $422 million from 2022 through 2045. This means that over 33 years the Utility will collect a total of approximately $610 million for $175 million in discretionary and unnecessary capital expenditures.

Q. In your career, have you ever seen a rate mechanism like DIR-B?

A. No. The DIR-B is one of the most unreasonable anti-consumer rate mechanisms that I have ever seen. Over five years, the DIR-B provides the Utility with $187.5 million in consumer provided funds. Normally consumer provided funds like ADIT or contributions in aid of construction are reductions to rate base that lower rates. But here the opposite is true. The DIR-B mechanism will be used to increase rates by another $422 million by providing the Utility with a financial windfall in the form of "free" rate base. The Stipulation asserts that it is the product of serious

[1] Malinak Exhibit RJM-1.

bargaining by knowledgeable and capable parties. However, that cannot be true given the DIR-B. No knowledgeable or capable party would agree to the DIR-B, except for the Utility that stands to benefit from such an unjustified windfall.

Q. Will the DIR-B result in the same "costs" being recovered twice from customers?

A. Yes. This is utterly absurd. It requires customers to fund the capital expenditure in "real time" through the DIR-B as they are incurred and then to pay for the same costs a second time through the DIR-A.

On a nominal basis, this requires customers to pay $187.5 million through the DIR-B for $175 million in distribution assets and then pay another approximately $422 million through the DIR-A for the same assets. On a net present value basis, this requires customers to pay $290 million (using an 8% discount rate) to $400 million (using a 4% discount rate) for the $175 million in distribution assets.

Q. Are these assets necessary for safe and reliable service?

A. No. They are discretionary. They are incremental to the Company's capital budget, which already includes the costs of projects that are necessary for safe and reliable service. These new discretionary projects are listed in Section II.2.e of the Stipulation, and include Smart Grid initiatives, AMI, electric vehicle infrastructure, Green Button Connect My Data, among others. These projects would constitute a wish list for a financially healthy utility, but they are unnecessary for a distressed utility seeking extraordinary revenues in excess of its regulated distribution costs.

Q. If the DIR-B revenues, capital expenditures, depreciation expense, and all other effects of the DIR-B are removed from the Stipulation, what is the result?

A. It eliminates $207.5 million in charges to customers during the six-year ESP term with very little effect on either DP&L or DPL Inc.'s credit metrics. These effects are shown in the third column on the two tables provided later in my testimony. If the Company's financial model is corrected to include the additional transmission revenues from the TCRR-N and additional distribution revenues from the DIR-A, there is even less effect on either DP&L or DPL Inc.'s credit metrics. In any event, elimination of DIR-B results in no reduction in the repayment of debt and no reduction in the indicated debt rating for DP&L or DPL Inc.

III. APPROVAL OF THE DMR SHOULD BE CONDITIONED ON THE CONVERSION OF DPL INC.'S DEFERRED INCOME TAX PAYMENTS TO EQUITY

Q. Does the Stipulation require AES Corporation to make any additional equity contributions to DPL Inc.?

A. No. The Stipulation maintains the status quo. DPL Inc. presently makes no dividend payments or income tax payments to AES Corporation. Although it is not a party to this proceeding, or a signatory to the Stipulation, AES Corporation nevertheless commits to maintain this status for the term of the ESP. Nor does the Stipulation require any additional equity investment by AES Corporation, either through additional cash equity investments or through non-cash equity conversions.

Q. Are the income tax payments actually forgiven by AES Corporation?

A. No. The Company implies that these income tax payments are "forgiven" or foregone," suggesting that AES Corporation has somehow contributed to the resolution of the credit problems that it created in the acquisition of DPL Inc. However, that representation is incorrect. The income tax payments are not forgiven or foregone. Instead, they are only temporarily deferred as DPL Inc. records this growing liability on its accounting books. At some date in the future, DPL Inc. will be required to make these tax payments to AES Corporation, assuming that they are not converted to equity.

Q. Is this a growing liability to AES that will require more cash for DPL Inc. to pay AES Corporation in the future?

A. Yes. That is a great irony of bailing out DP&L and DPL Inc. It is the equivalent of an intercompany debt owed to AES Corporation, a time bomb that is the equivalent of a balloon payment due AES Corporation at the end of the ESP. The more revenues that the Commission provides through the various proposed riders, including the DMR and DIR-B, the more this liability to AES Corporation continues to grow. The DMR, DIR-A, DIR-B, and other revenues actually increase the liability because the additional revenues increase DPL Inc.'s taxable income, and thus, its income tax liability to AES Corporation.

Q. What is the income tax payment debt to AES Corporation at December 31, 2016?

A. It is $[redacted] million, based on the Company's financial model forecast used for its base case in this proceeding.

Q. What is the amount of this income tax payment debt at the end of the ESP and how does this compare to the reduction in debt to third parties based on the Company's Stipulation model?

A. The income tax payment debt grows to $[redacted] million, an increase of $[redacted] million during the term of the ESP. The reduction in debt to third parties is $[redacted] million. In other words, even with all the DMR and DMR-B, there is almost no change in the total DPL Inc. debt when the income tax payment debt is included along with the third party debt.

This is a very serious concern and it is essential that the reduction in debt to third parties not be offset by the increase in debt to AES Corporation. In other words, the growing income tax payment debt to AES Corporation will perpetuate the financial distress at DPL Inc. beyond the term of the ESP unless it is resolved through additional AES equity investment.

Q. Is there a way to convert this intercompany debt to additional equity without additional cash investment by AES Corporation?

A. Yes. This is referred to as an "equity conversion." The equity conversion does not require additional cash investment in DPL Inc. by AES Corporation. In an equity conversion, AES Corporation would make additional equity investments in DPL Inc. by permanently foregoing the income tax payments. The liability would be extinguished and additional paid in capital of an equivalent amount would be recorded on DPL Inc.'s accounting books to reflect this conversion.

Q. Does the equity conversion significantly improve DPL Inc.'s credit metrics?

A. Yes. The equity conversion alone improves DPL Inc.'s indicated rating from Ba3 to Ba2. It alone improves the debt to capital ratio from 62.9% to 54.3% compared to the Stipulation with no DIR-B revenues, but including the incremental TERR-N and DIR-A revenues. The credit metrics are shown in the final column on the DPL Inc. table in Section V of my testimony.

Q. Should the Commission require that AES Corporation and DPL Inc. make these equity conversions as a condition to approving the Stipulation?

A. Yes. This is an absolute minimum requirement. Otherwise, the hundreds of millions of dollars in credit support revenues during the term of the ESP will not resolve DPL Inc.'s debt problems.

AES Corporation caused the distress at DPL Inc. and DP&L. The equity conversions will significantly improve DPL Inc.'s credit metrics.

IV. THE STIPULATION FINANCIAL MODEL OVERSTATES THE FINANCIAL NEED OF DPL INC. BY, AMONG OTHER PROBLEMS, FAILING TO INCLUDE TRANSMISSION REVENUE FROM THE TCRR-N AND DISTRIBUTION REVENUE FROM THE DIR-A

Q. Does the Company's "Stipulation" financial forecast accurately reflect the financial condition of the Utility or DPL Inc., its unregulated holding company parent?

A. No. It presents a worse financial picture than is really the case. First, the Stipulation case assumes that significant capital will be invested in the Conesville, Miami Fort, and Zimmer generating stations over the ESP term. Yet, Sections II.1.d and II.1.c of the Stipulation require DP&L to commence a sale process to sell the assets and apply the proceeds to repay debt.

Second, this forecast does not include the additional DIR-A distribution revenues. Nor does it include additional transmission revenue from the TCRR-N.

Third, this forecast incorrectly reflects the DIR-B capital expenditures, which are set forth in the Stipulation as $35 million annually for 2017-2021. Instead, this forecast reflects DIR-B capital expenditures of $35.500 million in 2017, $36.500 million in 2018, $37.500 million in 2019, $38.500 in 2020, and $39.500 million in 2021.

Fourth, this forecast reflects unreasonable increases in the Company's common equity and the common equity ratio due to the Company's modeling approach, which is unlikely to reflect actual practice on dividends, debt issuances and debt repayments in future years. This modeling approach results in an equity ratio of more than 70% for DP&L and lower returns on equity for DP&L and hundreds of millions in outstanding debt at DPL Inc. that could have been repaid.

V. THE CREDIT METRICS FOR DP&L AND DPL INC. ARE MORE THAN SUFFICIENT WHEN DIR-B IS ELIMINATED

Q. Please compare the credit metrics for the Company's base case, its Stipulation case, and the three change cases that you developed to demonstrate that your recommendations provide a better outcome than the Stipulation.

A. The following two tables summarize the results of the Company's corporate financial model under five scenarios. This model which was used by Company witness Mr. Jeffrey Malinak to forecast financial statements, credit metrics, and indicative debt credit ratings for DPL Inc. and the Company for the six-year ESP period (2017-2022) set forth in the Stipulation. The first scenario was developed by the Company and sponsored by Mr. Jackson in his Direct Testimony as a "base case" to forecast the DPL Inc. and DP&L financial statements and credit metrics without any DMR, DIR-A, DIR-B, or any other new rider revenues.

The second scenario was developed by the Company and sponsored by Mr. Malinak in his most recent Direct Testimony in support of the Stipulation to forecast the DPL Inc. and DP&L financial statements and credit metrics assuming that the Stipulation is adopted, although these forecasts are flawed, as I later describe.

I developed the third scenario by modifying the Company's Stipulation scenario to remove the DIR-B revenues and related capital expenditures. I also modified the dividends paid by DP&L to DPL Inc. to reflect changes in available cash. There was no change in the debt outstanding at DP&L or DP&L Inc. compared to the Company's Stipulation scenario.

I developed the fourth scenario by adding the additional TCRR-N transmission revenues and DIR-A distribution revenues available to the Company pursuant to the Stipulation. These revenues provide the Company additional cost based revenues that allow it to earn its authorized regulatory return on its regulated transmission and distribution rate base.

I developed the fifth scenario by reflecting a permanent equity conversion of all DPL Inc. tax payments due to AES Corporation. This includes an initial conversion of the present outstanding DPL Inc. tax payment liability of $[redacted] million and future conversion of the additional income tax payment liabilities during the term of the ESP, which increase as a result of the DMR and other rider revenues.

PROJECTED 2022 DPL INC. CREDIT METRICS

Ratio	Company's Base Case	Company's Stipulation	Stipulation, No DIR-B	Stipulation, No DIR-B, Add TCRR-N, Add DIR-A	Stipulation, No DIR-B, Add TCRR-N, Add DIR-A, Add Equity Conversion
Incremental Rider Revenues 2017-2022* ($000)		$706,675	$499,175	$578,175	$578,175
Debt 2022 ($000)	$2,082,087	$1,508,087	$1,508,087	$1,508,087	$1,508,087
Debt/EBITDA	6.40	4.27	4.52	4.30	4.30
Debt/Capital	81.5%	60.9%	64.2%	62.9%	54.3%
EBITDA/Interest	2.68	3.60	3.39	3.57	3.57
Interest Coverage	2.42	3.13	2.96	3.07	3.07
Cash Flow/Debt	8.3%	13.9%	12.7%	13.5%	13.5%
Retained Cash Flow/Debt	8.3%	13.9%	12.7%	13.5%	13.5%
Implied Moody's Rating - Regulated					
Interest Coverage	Ba2	Baa2	Ba2	Baa2	Baa2
Cash Flow/Debt	Ba2	Baa2	Ba2	Baa2	Baa2
Retained Cash Flow/Debt	Ba2	Baa2	Baa2	Baa2	Baa2
Debt/Capital	Caa2	Ba2	Ba2	Ba2	Baa2
Weighted Average	Ba3	Baa3	Ba1	Baa3	Baa2
Indicated Rating	B3	Ba3	B1	Ba3	Ba2
Implied Moody's Rating - Unregulated					
Interest Coverage	B2	Ba2	Ba2	Ba2	Ba2
Cash Flow/Debt	B2	Ba2	Ba2	Ba2	Ba2
Retained Cash Flow/Debt	Ba2	Ba2	Ba2	Ba2	Ba2
Weighted Average	B1	Ba2	Ba2	Ba2	Ba2
Indicated Rating	Caa1	B2	B2	B2	B2

* per cases evaluated, this line includes applicable rider revenues

PROJECTED 2022 DP&L CREDIT METRICS

Ratio	Company's Base Case	Company's Stipulation	Stipulation, No DIR-B	Stipulation, No DIR-B, Add TCRR-N, Add DIR-A	Stipulation, No DIR-B, Add TCRR-N, Add DIR-A, Add Equity Conversion
Incremental Rider Revenues 2017-2022* ($000)		$706,675	$499,175	$578,175	$578,175
Dividends Paid to DPL Inc. 2017-2022 ($000)	$32,149	$180,000	$230,000	$270,000	$270,000
Debt 2022 ($000)	$781,516	$657,516	$657,516	$657,516	$657,516
Debt/EBITDA	2.69	2.06	2.20	2.08	2.08
Debt/Capital	34.9%	27.2%	29.4%	29.2%	29.2%
EBITDA/Interest	8.36	10.27	9.63	10.19	10.19
Interest Coverage	7.19	8.73	8.18	8.54	8.54
Cash Flow/Debt	27.5%	36.5%	33.9%	35.6%	35.6%
Retained Cash Flow/Debt	27.5%	34.2%	31.6%	32.5%	32.5%
Implied Moody's Rating - Regulated					
Interest Coverage	Aa2	Aaa	Aaa	Aaa	Aaa
Cash Flow/Debt	A2	Aa2	Aa2	Aa2	Aa2
Retained Cash Flow/Debt	Aa2	Aa2	Aa2	Aa2	Aa2
Debt/Capital	Aa2	Aa2	Aa2	Aa2	Aa2
Weighted Average	Aa3	Aa2	Aa2	Aa2	Aa2
Indicated Rating	A3	A2	A2	A2	A2

* per cases evaluated, this line includes applicable rider revenues

Q What are your conclusions based on these five scenarios?

A. First and foremost, the results demonstrate that the DMR and DIR-B riders are not necessary for DP&L's credit metrics on a standalone basis, according to the Company's "base case." Any credit support riders are necessary only because of the poor DPL Inc. credit metrics, which DP&L did not cause. The indicated rating for DP&L in the base case is A3, a solid investment quality rating, according to the Company. The indicated rating for DP&L in the Stipulation case increases to A2, according to the Company. This minimal improvement in the indicated rating is not necessary for DP&L or its customers and comes at the cost of more than a billion dollars in additional revenues for the DMR and DIR-B riders and the ongoing effects of the DIR-B through the DIR-A rider. The indicated rating for DPL Inc. improves from B3 in the base case to Ba3 in the Stipulation case.

Second, the DIR-B is not necessary and actually reduces the cash available for DP&L to pay dividends to DPL Inc. This is evident by comparing the third case with no DIR-B revenues and no DIR-B capital expenditures to the Company's Stipulation case. There still is an increase in the indicated debt rating for DP&L compared to the base case from A3 to A2 (Aa3 to Aa2 on a standalone basis), the same increase as shown in the Company's Stipulation case compared to the base case. There is an increase in the indicated debt rating for DPL Inc. compared to the base case from B3 to B1. There is an increase in the dividends paid by DP&L to DPL Inc. compared to the Stipulation case from $180 million to $230 million. There is no increase in either the DP&L or DPL Inc. debt outstanding compared to the Stipulation case.

Third, if the additional revenues available to DP&L from the TCRR-N, DIR-A, and other rider increases are included, as they should be, then the DP&L and DPL Inc. credit metrics improve even more. The indicated debt ratings for DP&L and DPL Inc. are A2 and Ba3, respectively, the same as the Company's Stipulation case, but without the DIR-B rider revenues. There is another increase in the dividends paid by DP&L to DPL Inc. compared to the prior case from $230 million to $270 million. This is $90 million more in cash dividends available to DPL Inc. compared to the Company's Stipulation case.

Fourth, the equity conversions improve the DPL credit metrics at no cost to DP&L customers and without the DIR-B revenues. The indicated debt rating for DPL Inc. improves to Ba2 compared to Ba3 in the Stipulation case.

Q. Are there other problems with the Company's Stipulation case that are inconsistent with the Stipulation and the real world and that depress the forecast credit metrics for DP&L and DPL Inc.?

A. Yes. As in the base case, the Stipulation case assumes that DP&L retains the generation assets. The Stipulation requires DP&L to divest these assets within 180 days after the Commission approves the Stipulation. The generation assets require DP&L to invest $[redacted] million in these unregulated activities during the term of the ESP, which perpetuates the financial distress of DP&L and DPL Inc.

The Stipulation case also assumes that DP&L does not sell Conesville, Miami Fort, or Zimmer generating stations or use the proceeds to repay debt, as the Stipulation requires.

The base case and Stipulation case further assume reductions in generation energy prices and revenues in certain years during the term of the ESP that require additional cash, which further diminishes the credit metrics in those and subsequent years.

Finally, the base case and Stipulation case fail to rebalance the Utility's capital structure to eliminate the excessive DP&L 70% equity ratio.

Q. Did you correct these problems in the Company's base case and Stipulation case?

A. No. However, if these problems were corrected, the financial metrics of DP&L and DPL Inc. would both improve, all else equal.

VI. THE PROPOSED RENEWABLE ENERGY RIDER IS UNREASONABLE AND UNNECESSARY

Q. Please describe the Company's proposal to purchase and/or develop renewable energy projects and recover net costs or credits.

A. The proposed is set forth in Section VI.1-8 of the Stipulation. It requires DP&L and/or its affiliates to procure and/or develop at least 300 MW of wind and/or solar energy projects in Ohio over the next three years. DP&L affiliates will have the "right" to own up to 50% of such projects. DP&L will enter into PPAs with each project to acquire all capacity, energy, ancillaries and renewable energy credits. The capacity, energy, and ancillaries will be liquidated into the PJM markets with the net cost recovered from or net margin credited to customers through the RER. This turns the renewable projects into merchant generators.

Q. Is this an appropriate undertaking for DP&L or DPL Inc. during the term of the ESP?

A. No. The Company seeks extraordinary rate relief due to the financial distress on both DPL Inc. and DP&L resulting from the debt imposed on DPL Inc. by AES Corporation when it acquired DPL Inc. Neither DPL Inc. nor DP&L should be allowed to invest in such merchant renewables projects during the term of the ESP. Such projects require capital expenditures, reduce the cash available to repay debt and/or require additional debt.

Q. Please describe how the net costs or credits of these renewables projects will be recovered from DP&L customers pursuant to the Stipulation.

A. DP&L would recover the net costs or credits associated with the wind or solar renewable energy projects through a new non-bypassable RER. The RER would be a uniform per kWh charge for all monthly consumption up to 833,000 kWh per customer account and would apply for the life of any PPA associated with the renewable energy projects.

Q. Do you oppose DP&L's proposed approach to recovering the costs/credits of the renewable energy projects?

A. No. I oppose the Company's plan to develop and/or acquire renewables or any other additional capacity. However, if DP&L is permitted to acquire and/or develop this capacity, then it is reasonable to limit the costs/credits applied to individual customers. Such an approach is symmetrical and balanced. Further, even with the establishment of a cost/credit cap, the RER rate design would still apply to 80% of DP&L's retail MWh sales.

VII. THE DMR SHOULD BE REDUCED IF CORPORATE INCOME TAX RATES ARE REDUCED AND SHOULD BE LIMITED TO THREE YEARS WITH THE OPPORTUNITY TO SEEK A TWO YEAR EXTENSION

Q. Should the $90 million DMR be reduced if the federal corporate income tax rate is reduced?

A. Yes. The $90 million DMR should be reduced if there is a reduction in the federal corporate income tax rate, as proposed by the Trump Administration. The DMR revenues are before tax amounts and reflect recovery of income tax expense at the present federal income tax rate of 35%. Therefore, if the federal income tax rate is reduced, then the DMR revenues should be reduced to reflect recovery of the lower income tax expense at the reduced federal income tax rate.

Q. Should the Commission limit the term of the DMR?

A. Yes. As I testified in my original testimony, the term of the DMR should be for three years, with the opportunity to extend it for another two years. This will give the Commission flexibility to modify the DMR based on unforeseen future conditions.

VIII. IF THE STIPULATION IS ADOPTED IN SOME FORM, THEN THE COMMISSION SHOULD EXPAND THE NUMBER OF CUSTOMERS ELIGIBLE FOR THE PROPOSED ECONOMIC DEVELOPMENT INCENTIVES.

Q. What economic development incentives are offered to Signatory and Non-Opposing Parties under the Stipulation?

A. The Stipulation provides several economic development incentives to large customers that are Signatory or Non-Opposing Parties:

- A $4/MWh *"Economic Improvement Incentive"* available to single-site customers with demand of 10 MW of greater with an average load factor of at least 80%;
- A $4/MWh *"Automaker Incentive"* available to single-site customers with demand of 4 MW of greater;
- A $4/MWh *"Ohio Business Incentive"* available to businesses headquartered in the State of Ohio who have either single or aggregate accounts within the DP&L service territory with a total average demand of 2 MW or greater.

Signatory or Non-Opposing Parties may only receive one of the economic development incentives. The incentives would expire *"when the DMR and DIR-B expire, or when an equivalent economic stability charge intended to provide financial stability to DP&L or DPL, Inc., whether proposed in this case or another proceeding, expires."* DP&L seeks to recover the costs of the incentives through its non-bypassable Economic Development Rider.

Q. Please describe the transmission pilot proposed under the Stipulation.

A. The proposed pilot program would allow certain Signatory and Non-Opposing Parties to opt out of DP&L's Transmission Cost Recovery Rider – Non-Bypassable (TCRR-N) and obtain all transmission and ancillary services through the PJM Open Access Transmission Tariff and other applicable PJM governing documents for the term of the ESP. The pilot program would be limited to the first 50 accounts of Signatory and Non-Opposing Parties that do not take DP&L standard service offer generation, are served at the primary voltage level and above, and notify DP&L in writing within 30 days after approval of the Stipulation (if the Stipulation is approved).

Q. What is your recommendation with respect to the economic development incentives and the transmission pilot program proposed in the Stipulation.

A. I recommend that if the Commission approves the economic development incentives and/or the transmission pilot program, then it should also modify the Stipulation to expand the number customers eligible to benefit from those proposals. Rather than restricting the potential beneficiaries of those proposals to only Signatory and Non-Opposing Parties, the economic development incentives and transmission pilot program should be available to *any* intervenor (or member of an intervening party) who meets the other eligibility criteria. For example, the *"Economic Improvement Incentive"* should be available to *any* intervenor with a demand of 10 MW of greater with an average load factor of at least 80%.

Restricting the potential beneficiaries of the economic development incentives and transmission pilot program to only the Signatory and Non-Opposing Parties unduly penalizes intervenors who chose not to sign on to the Stipulation because of their strong disagreement with other provisions contained therein. Given the sheer magnitude of unwarranted DIR-B costs proposed in the Stipulation, it is no surprise that parties who may have benefitted from the economic development incentives as well as the transmission pilot program were forced to expressly oppose the Stipulation. Limiting the number of customers who can benefit from the aforementioned provisions also hinders economic development in Ohio by precluding large customers from rate benefits that may help them remain competitive, even while their potential competitors are receiving those benefits merely in exchange for signing the Stipulation. Conversely, expanding the number of customers who can benefit from those provisions puts large customers on "equal footing."

Q. Would you recommend any other modifications to the Stipulation language addressing proposed economic development incentives?

A. Yes. I would recommend that those incentives be made available to customers who met the applicable MW demand and load factor eligibility criteria in any given month of 2016, rather than creating an ongoing requirement to meet the MW demand and load factor criteria. If a customer met the MW demand and load factor eligibility criteria in at least one month of 2016, then I believe it is reasonable to consider them a "large customer" who may derive significant economic development benefits from the proposed incentives.

IX. THE PROPOSED ALLOCATION OF SEVERAL RIDERS CONTAINED IN THE STIPULATION IS REASONABLE.

Q. What does the Stipulation provide with respect to the cost allocation and rate design of the DMR?

A. The Stipulation provides that the DMR costs would be allocated to tariff classes based 34% on 5 Coincident Peaks, 33% on distribution revenue, and 33% on the historic allocation of the currently charged non-bypassable rider. The rate design for DMR would be a \$/kWh charge for the residential, secondary, and lighting classes and a combination of energy and demand charges for all other tariff classes.

Q. Do you oppose the proposed cost allocation and rate design for the DMR?

A. No.

Q. What does the Stipulation provide with respect to the cost allocation of the proposed Distribution Investment Rider, Smart Grid Rider, Reconciliation Rider, Regulatory Compliance Rider, and Storm Cost Recovery Rider?

A. The Stipulation provides that the costs of those riders would be allocated based upon base distribution revenues. I do not oppose that approach.

Q. Does this complete your testimony?

A. Yes.

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

LANE KOLLEN, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Lane Kollen

Sworn to and subscribed before me on this 27th day of February 2017.

Notary Public

RANDY A. FUTRAL
MY COMMISSION EXPIRES
NOTARY
PUBLIC
AUGUST 26, 2020
COBB COUNTY, GEORGIA

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) or ordinary mail, unless otherwise noted, this 27TH day of February, 2017 to the following:

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