BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

CASE NO. 15-1830-EL-AIR
CASE NO. 15-1831-EL-AAM
CASE NO. 15-1832-EL-ATA

SUPPLEMENTAL DIRECT TESTIMONY
OF TYLER A. TEUSCHER

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

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TYLER A. TEUSCHER

ON BEHALF OF
THE DAYTON POWER AND LIGHT COMPANY

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Tyler A. Teuscher. My business address is 1065 Woodman Drive, Dayton, Ohio 45432.

Q. Did you previously file testimony in this matter?

A. Yes.

Q. Do you have any changes to your background information included in your direct testimony in this matter?

A. Yes. In August of 2017, I graduated with a Master's in Business Administration ("MBA") from Miami University of Ohio. In addition, I have since provided written testimony in Case No. 16-649-EL-POR and both written and oral testimony before the Commission in Case No. 17-1398-EL-POR.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to support the Company's proposed decoupling methodology for its Distribution Decoupling Rider as established and approved as part of the Amended Stipulation and Recommendation in Case No. 16-395-EL-SSO ("ESP Stipulation").

II. DECOUPLING METHODOLOGY

Q. What is decoupling?

A. The purpose of decoupling is to separate a utility's revenue from customer usage, so that it can recover the fixed costs of infrastructure, which do not vary based on customer usage. Decoupling also enables utilities to earn incentives for providing and encouraging usage management tools, such as energy efficiency programs, to its customers.

Q. Does DP&L currently recover costs through its Distribution Decoupling Rider?

A. Yes. In paragraph VI.1.b. of the ESP Stipulation, the Company agreed to implement a Decoupling Rider to include the lost distribution revenues that had previously been recovered through the Energy Efficiency Rider as agreed in the Stipulation and Recommendation that was approved in Case. No. 16-649-EL-POR.[1]

Q. Please describe the current methodology for determining costs to be included in the Distribution Decoupling Rider.

A. As stated above, the Company is currently recovering lost distribution revenues in its Distribution Decoupling Rider. These lost distribution revenues are calculated by multiplying the average base distribution rate for each class of customers by the energy efficiency energy savings generated by each class.

Q. Why is DP&L proposing a new methodology for its Distribution Decoupling Rider?

A. In the ESP Stipulation, the parties agreed that all other matters relating to the Distribution Decoupling Rider, including methodology, cost allocation, term, and rate design would be addressed in this distribution case. In addition, the current lost distribution revenue methodology only accounts for decreases in kWh sales due to energy efficiency savings

[1] Case No. 16-395-EL-SSO, Amended Stipulation and Recommendation at ¶ VI.1.b (March 13, 2017).

resulting from the Company's approved energy efficiency programs. The new methodology proposed in this testimony is more appropriate because reductions in base distribution revenues are caused by several factors in addition to energy efficiency program savings, including but not limited to; weather, economic downturns, and improvements in technology.

Q. What is DP&L's proposal for the decoupling methodology?

A. The Company proposes to implement a revenue per customer ("RPC") decoupling mechanism. The allowed revenue requirement in each year between distribution rate cases will be based on the RPC, adjusted for net inflation, which reflects indexed inflation less a multifactor productivity ("MFP") offset. The difference between the allowed distribution revenue requirement and the Company's actual distribution revenues in each year represents the distribution decoupling costs that will be included for recovery in DP&L's Distribution Decoupling Rider.

Q. Why is it appropriate to include an adjustment for net inflation in the calculation of DP&L's allowed revenue requirement?

A. The indexed inflation recognizes that the Company's cost to provide distribution service (both capital and O&M) increases between base distribution rate cases in the same way that costs of other products and services in the economy increase over time. In addition, the Company has the ability to more or less efficiently provide its goods and/or services to its customers. This is represented by MFP, and it is netted against the Company's inflationary pressures.

Q. What value for indexed inflation does DP&L propose to utilize in its net inflation factor?

A. The Company proposes the use of the Gross Domestic Product ("GDP") price deflator. This measure of inflation considers the change in prices of all goods and services in the economy, rather than a specific basket of goods included in measures such as the Consumer Price Index ("CPI") and is most representative of the Company's inflationary pressures. This value is published by the Federal Reserve Bank of St. Louis and is publicly available.

Q. What value for MFP does DP&L propose to utilize in its net inflation factor?

A. DP&L proposes the use of a fixed MFP offset, set at 0.75% based on a review of industry studies, other state Utility Commission proceedings, and publicly available data from the Bureau of Labor Statistics ("BLS") regarding MFP. A 2010 Edison Electric Institute ("EEI") Report developed by Dr. Mark Newton Lowry, President of Pacific Economics Group Research LLC ("PEG"), et al. states that the average annual growth in MFP from 1996 to 2006 for U.S. power distributors was 1.03%.[2] Moreover, in April of 2016, Dr. Lowry presented on forward test years for U.S. energy utilities at the Annual Financial Forum for the Society of Utility and Regulatory Financial Analysts ("SURFA"). This presentation updates the findings in the 2010 EEI report and provides that MFP for U.S. power distributors was 0.56% from 1997 to 2014.[3] In September 2008, the State of Vermont Public Service Board approved a net inflation factor with a productivity offset

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[2] Forward Test Years for US Electric Utilities, August 2010 EEI Report; http://www.eei.org/issuesandpolicy/stateregulation/Documents/EEI_Report%20Final_2.pdf
[3] Forward Test Years for US Energy Utilities, Dr. Mark Newton Lowry, SURFA 48th Annual Financial Forum; http://ipu.msu.edu/wp-content/uploads/2017/01/Lowry2c-Mark-Newton-1.pdf

of 1.0% for Central Vermont Public Service Corporation ("CVPS").[4] In these proceedings, CVPS supported a 0.91% productivity factor and found that productivity for the Northeastern United States was 0.74%. In addition, the BLS publishes MFP tables for Private Business as well as those based on the North American Industry Classification System ("NAICS") for specific industries. From 2007 to 2017, MFP of private businesses in the U.S. was on average 0.5% annually. In addition, the average annual MFP of the utilities sector, as defined by the NAICS, was -0.6% from 2007 to 2015.[5] Negative MFP would add to the indexed inflation, resulting in a larger adjustment to the Company's allowed revenue requirement between rate cases. Based on this publicly available data, a 0.75% fixed MFP offset is conservative and reflects a reasonable offset to inflation, to the ultimate benefit of customers.

Q. How will DP&L utilize this RPC decoupling mechanism to calculate its allowed revenue requirement?

A. With this mechanism, DP&L will calculate an RPC for each tariff class using its approved distribution revenue requirement divided by the test year number of customers. Annually, the number of actual customers will be multiplied by the RPC and then by the net inflation factor, generating the Company's allowed revenue requirement for the Decoupling Rider.

III. <u>DISTRIBUTION DECOUPLING RIDER</u>

Q. What is included in the proposed Distribution Decoupling Rider?

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[4] Order Approving Alternative Regulation Plan and Notice of Status Conference, State of Vermont Public Service Board, Docket No. 7336

[5] BLS, 1987-2017 Major Sector Multifactor Productivity; 1987-2015 Combined Sector and Industry Multifactor Productivity; https://www.bls.gov/mfp/mprdload.htm

A. A reconciliation of the previous period's actual recovery through the Distribution Decoupling Rider, plus the distribution decoupling costs as detailed in section II of this testimony. In addition, interest at the weighted average cost of capital ("WACC") will be calculated monthly on the net balance.

Q. How is DP&L proposing to design the rate of the Distribution Decoupling Rider?

A. The Distribution Decoupling Rider will take the net costs or credits as explained above, and divide them by the annual forecasted base distribution revenue to calculate a percentage rate for all customers to be applied to each customer's base distribution charges, monthly. The initial proposed percentage rate for all customers to be effective with approval of this case is 0%, as base distribution rates will be reset, effectively resetting distribution decoupling costs.

Q. Why is DP&L proposing to charge the Distribution Decoupling Rider as a percentage rate?

A. The dollars collected through this rider represent base distribution revenue requirements and should therefore be recovered in the same manner. Also, a percentage rate that is applied to base distribution revenues represents a simple rate calculation that is inherently allocated appropriately to customer classes based on base distribution revenue. A percentage rate alleviates the need to develop separate, often complex energy and/or demand rates for each customer class. A single rate that applies to all customers is more easily understood by the customer.

IV. TARIFFS

Q. What is contained on Tariff Sheet No. D32?

A. Tariff Sheet No. D32 contains the proposed rates of DP&L's Distribution Decoupling Rider which contains the new methodology to recover distribution decoupling costs, as explained above. This rider will be trued-up on an annual calendar basis. Please see Supplemental Exhibit TAT-3 - Tariff Sheet No. D32.

V. CONCLUSION

Q. Please summarize your testimony.

A. In summary, this proposal represents a fair and reasonable methodology to account for economic factors affecting the Company between distribution rate cases and encourages the Company to embrace implementation of customer usage management tools. The Commission should approve DP&L's recommendation of a revenue per customer distribution decoupling mechanism that includes an inflation less productivity factor adjustment to DP&L's allowed revenue requirement to recognize increased costs between rate cases. In addition, the Commission should approve interest on the deferred balance at DP&L's WACC.

Q. Does this conclude your direct testimony?

A. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Supplemental Direct Testimony of Tyler A. Teuscher has been served via electronic mail upon the following counsel of record, this 11th day of April, 2018:

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P.U.C.O. No. 17
ELECTRIC DISTRIBUTION SERVICE
DISTRIBUTION DECOUPLING RIDER

DESCRIPTION:

The Distribution Decoupling Rider (DDR) recovers the costs associated with decoupling base distribution charges from reductions in customer usage.

APPLICABLE:

This Rider will be assessed on a percentage of base distribution revenue basis, effective on a bills-rendered basis beginning _______ 1, 2018 on all Customers served under the Electric Distribution Service Tariff Sheets D17-D25.

CHARGES:

All applicable customers will be charged the DDR at a rate of 0% of total base distribution charges, as provided under Tariff Sheets D17-D25.

All modifications to the DDR are subject to Commission approval.

TERMS AND CONDITIONS:

The rates charged under this tariff shall be updated annually.

Filed pursuant to the Opinion and Order in Case No.15-1830-EL-AIR dated _______, 2018 of the Public Utilities Commission of Ohio.

Issued _______, 2018

Effective ______, 2018

Issued by
CRAIG L. JACKSON, President and Chief Executive Officer