

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY
D/B/A AES OHIO

CASE NO. 20-1651-EL-AIR
CASE NO. 20-1652-EL-AAM
CASE NO. 20-1653-EL-ATA

SUPPLEMENTAL DIRECT TESTIMONY
OF CRAIG A. FORESTAL

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

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Craig Forestal. My business address is 2611 Millgate Court, IN 46033.

4 **Q. Did you previously submit prefiled direct testimony in this case?**

5 A. Yes.

6 **Q. What is the purpose of this testimony?**

7 A. The purpose of this testimony is to support and explain the following objections of AES
8 Ohio to the July 26, 2021 Staff Report:

9 **Objection No. 2 - Working Capital:** AES Ohio objects to the recommendation in the
10 Staff Report to disallow AES Ohio's request for a working capital allowance because the
11 Company did not submit a lead-lag study to support an allowance for cash working
12 capital. Staff Report, p. 11. That recommendation is unreasonable and unlawful because
13 the Commission's rules do not require a lead-lag study to include a working capital
14 allowance, and AES Ohio requires working capital even without a need for cash working
15 capital.

16 **Objection No. 18 - Energy Efficiency Rider Revenue and Expense:** AES Ohio objects to
17 the recommendation in the Staff Report to remove \$773,286 in labor and labor-related
18 expenses associated with the Energy Efficiency Rider from the test year. Staff report, pp.
19 14, 88 (Schedule C-3.5). That recommendation is unreasonable and unlawful because it
20 removes expenses that were also removed on Staff Report, pp. 96, 97 (Schedule C-3.13,
21 C-3.14).

1 **Objection No. 19 - Annualized Payroll Tax Expense:** AES Ohio objects to the
2 methodology by which Staff annualized test year Federal Insurance Contributions Act
3 ("FICA") tax expense. Staff Report, pp. 14, 95 (Schedule C-3.12). That
4 recommendation is unreasonable and unlawful because it: (i) is based on an annualized
5 amount using ten calendar months of actual data that excludes March and May, which
6 substantially lowers the actual amount of FICA taxes paid by AES Ohio in the Test Year,
7 as well as the expected ongoing level; and (ii) fails to include the impact that the 1.8%
8 overall pay increase given to AES Services employees will have on FICA taxes going
9 forward.

10 **Objection No. 20 - AES Ohio Employees' Salaries and Wages Expense:** AES Ohio
11 objects to the methodology by which Staff calculated labor expense. Staff Report, pp. 14,
12 96 (Schedule C-3.13). That recommendation is unreasonable and unlawful because the
13 Staff Report erroneously reduced labor expense for nonjurisdictional and non-O&M
14 expenses twice, and utilized the wrong number of hours to annualize expense.

15 **Objection No. 21 - AES Ohio Union Employee Pay Increase:** AES Ohio objects to the
16 Staff's failure to annualize a 2.75% AES Ohio union employee pay increase. That
17 recommendation is unreasonable and unlawful because the increase is a fixed, known and
18 measurable increase that occurred within the test year.

19 **Objection No. 22 - AES Services Employees' Salaries and Wages Expense:** AES Ohio
20 objects to the methodology by which Staff annualized labor expense. Staff Report, pp.
21 14, 96 (Schedule C-3.13). That recommendation is unreasonable and unlawful because
22 the Staff Report failed to annualize a 1.8% overall pay increase that became effective

1 January 1, 2021, and utilized the actual results of May 2020, which is outside the Test
2 Year.

3 **Objection No. 23 - Short-Term Compensation ("STC") and Long-Term Compensation**

4 **("LTC") Expense:** AES Ohio objects to the recommendation in the Staff Report to
5 remove 75% of STC and eliminate 100% of LTC for both AES Ohio and AES Services
6 employees. Staff Report, pp. 15-16, 96 (Schedule C-3.13). That recommendation is
7 unreasonable and unlawful because the expenses associated with STC and LTC are
8 prudently incurred, the total amount of compensation is consistent with market rates, the
9 costs are necessary to provide service to customers, such compensation incentivizes
10 employees to reduce expenses, and if the amounts are to be removed, the actual portion
11 of STC based on financial metrics is only 45%.

12 **Objection No. 24 - Annualize Pay Increases into STC and LTC:** AES Ohio objects to
13 the Staff Report's calculations of STC and LTC to the extent that they fail to recognize
14 the impacts of fixed, known and measurable pay increases that occurred during the Test
15 Year. Staff Report, pp. 16, 97 (Schedule C-3.14). That recommended level of expense is
16 unreasonable and unlawful because the January 1, 2021 pay increase to AES Ohio and
17 AES Services employees is known to have happened during the Test Year and will
18 directly impact STC and LTC expense going forward, which are awarded as a percentage
19 of base salaries.

20 **Objection No. 25 - Annualize Employee Pensions and Benefits Expense:** AES Ohio
21 objects to the failure of the Staff Report to update pension and other postemployment
22 benefits expense to reflect updated actuarial data. Staff Report, pp. 16, 97 (Schedule C-
23 3.14). That failure to utilize updated actuarial data is unreasonable and unlawful because

the updated annual expense amounts, which began January 1, 2021, are a fixed, known and measurable change that occurred within the Company's Test Year.

Q. Please identify the exhibits to your testimony.

A. I am supporting the following exhibits:

Exhibit CF1 - Supplemental Workpaper C-3.12 – *Annual FICA Estimate for the Test Year Ended May 31, 2021*

Exhibit CF2 – Supplemental Workpaper C-3.13a - Confidential – *Annual Payroll Estimate for the Test Year Ended May 31, 2021*

Exhibit CF3 - Supplemental Workpaper C-3.13b – *Support for updated calculations for short-term compensation ("STC") For the Test Year Ended May 31, 2021*

Exhibit CF4 – Staff Workpaper WPC 3.12 – *Workpaper provided to AES Ohio by PUCO Staff in support of their Schedule C-3.12*

Exhibit CF5 - Staff Workpaper WPC-3.13DPL - Confidential *Workpaper provided to AES Ohio by PUCO Staff in support of their Schedule C-3.13*

II. OBJECTIONS TO THE STAFF REPORT

A. Rate Base – Working Capital

Q. Please explain AES Ohio Objection No. 2 to the Staff Report regarding the exclusion of a working capital allowance in rate base on Staff Schedules B-1 and B-5.

A. AES Ohio objects to the Staff Report's (p. 11) exclusion of AES Ohio's \$9,649,258 working capital allowance. The Staff Report unreasonably and improperly disallows the

1 balance of miscellaneous working capital (prepayments, materials and supplies inventory,
2 and accruals) from rate base for AES Ohio, because of the lack of a lead-lag study to
3 support it.

4 **Q. Do the Standard Filing Requirements for an Ohio rate case petition require a recent**
5 **lead-lag study be performed in order to include Miscellaneous working capital**
6 **items, such as those included in AES Ohio's petition?**

7 A. No. Chapter 4901-7 of the Ohio Administrative Code Standard Filing Requirements for
8 Rate Increases (on page 37) states, "An allowance for cash working capital shall be
9 supported by a recent lead-lag study." There is no such requirement in the following
10 paragraph of such code, which describes the requirements for "Miscellaneous working
11 capital items."

12 **Q. Should a lead-lag study be a requirement to include miscellaneous working capital**
13 **in rate base?**

14 A. No. Not only is there no rule requiring such a study to include miscellaneous working
15 capital in rate base, but also, a lead-lag study will not determine the amount of
16 miscellaneous working capital. There is no connection between analyzing a lead-lag
17 study (which evaluates the timing of when the Company pays for services and is paid for
18 the services it provides) and miscellaneous working capital (prepayments, materials and
19 supplies inventory, and accruals). Staff does not dispute the Company's calculation of its
20 miscellaneous working capital.

B. Operating Income

1. Energy efficiency

Q. Please explain AES Ohio's Objection No. 18 to the Staff Report regarding Staff's calculation of the elimination of Energy Efficiency Revenue and Expense on Schedule C-3.5.

A. AES Ohio objects on the grounds that the Staff adjustment on Schedule C-3.5 removes labor and benefit amounts that are also removed on Staff Schedules C-3.13 and C-3.14.

Q. You stated the Staff Energy Efficiency Rider adjustment removes labor that is also removed on Staff Schedule C-3.13. Can you prove that?

A. Yes. Looking at Staff Schedule C-3.5, one can see that the revenue and expense amounts removed on that schedule are the same as in AES Ohio's Schedule C-3.5 until the bottom section entitled, "Staff's Adjustment to Increase EE expenses for Removal from TY." This section removes an additional \$773,286 from Test Year expenses, which includes various wage and benefit expenses. This amount was calculated by AES Ohio as the Energy Efficiency labor and benefits included in our unadjusted Test Year, and provided to Staff in response to a Data Request. Included in the \$773,286 are amounts for Base Labor, STC and Health Benefits that are removed in whole, or in part, on other Staff Schedules.

Q. Which other Staff schedules, and where on such schedules are Energy Efficiency labor and benefits expenses amounts excluded?

A. Staff Schedule C-3.13 (page 96 of the Staff Report) removes all DP&L Test Year labor on lines 17 and 18, which includes the \$558,257 for Energy Efficiency. Staff Schedule

1 **C-3.13** also removes 75% of all STC, including the STC for Energy Efficiency, which is
2 \$55,383 (75% of the amount on **Staff Schedule C-3.5**, row 33). Lastly, Staff **Schedule**
3 **C-3.14** (page 97 of the Staff Report) removes all DP&L Test Year Health Benefits on
4 lines 26 and 36, which includes the entire Energy Efficiency amount of \$773,286.

5 **Q. Staff Schedule C-3.13 adds back a labor calculation to represent the Test Year on**
6 **lines 5-16. Do those numbers include any Energy Efficiency labor?**

7 A. No. Staff **Schedule 3.13** adds back a labor amount for AES Ohio employees that is an
8 annualization of actual labor costs in April 2021. AES Ohio's Energy Efficiency
9 programs were halted in 2020 and have not resumed. Consequently, there was no Energy
10 Efficiency labor in April 2021 and therefore none is included in the pro forma labor
11 amount proposed by Staff.

12 **Q. Staff Schedule C-3.14 adds back an AES Ohio Health Insurance Benefits expense**
13 **calculation to represent the Test Year on lines 9 and 10. Do those numbers include**
14 **any Health Insurance Benefits expense for Energy Efficiency?**

15 A. No. Similar to the Staff's labor calculation, the Staff's Health Insurance Benefits expense
16 adds back an amount for AES Ohio employees that is an annualization of costs for the
17 employees in April 2021. AES Ohio's Energy Efficiency programs were halted in 2020
18 and have not resumed. Consequently, there were no Energy Efficiency Health Insurance
19 Benefits expense in April 2021 and therefore none is included in the pro forma labor
20 amount proposed by Staff.

1 **Q. What is your conclusion about the changes Staff Schedule C-3.5 includes as**
2 **compared to that of AES Ohio?**

3 A. Staff's reductions for Energy Efficiency expenses on Staff Schedule C-3.5 must be
4 reduced by the labor amount (\$558,257), the Health Benefits amount (\$77,063), and 75%
5 of the STC amount (\$55,383), for a total reduction of \$690,703. Those costs are also
6 removed on Staff Schedules C-3.13 and C-3.14. Removing those costs in multiple
7 schedules understates AES Ohio's operating expenses.

8 **2. Payroll taxes**

9 **Q. Please explain AES Ohio's Objection No. 19 to the Staff Report regarding Staff's**
10 **calculations to annualize payroll taxes for both AES Ohio and AES Services**
11 **employees**

12 A. AES Ohio objects on the grounds that the pro forma level of FICA taxes calculated by
13 Staff: (i) are based on an annualized amount using ten calendar months of actual data that
14 excludes March and May, which substantially lowers the actual amount of FICA taxes
15 paid by AES Ohio in the Test Year, as well as the expected ongoing level; and (ii) fails to
16 include the impact that the 1.8% overall pay increase given to AES Services employees
17 will have on FICA taxes going forward.

18 **Q. What evidence did you rely upon to support your assertions that the Staff Report**
19 **FICA calculations are based on an annualized amount using ten calendar months of**
20 **actual data that excludes March and May and fails to include the impact that the**
21 **1.8% overall pay increase that was given to AES Services employees effective**
22 **January 1, 2020?**

1 A. Staff provided the Company with an Excel file that included its Schedules as well as
2 several workpapers that support their Schedules. I have provided as **Exhibit CF4 - Staff**
3 **Workpaper WPC-3.12** that calculated FICA tax expense. There is a column titled "10
4 months actual FICA tax expense (A) = $\sum$ (June through February plus April)". The
5 calculations reflect that this 10-month average was multiplied by 12 to get Staff's
6 recommended FICA expense. They also reflect that, while AES Ohio union and
7 nonunion employee FICA expense was increased to annualize the pay increases received
8 by those employees during the Test Year (Excel rows 10 and 11), no such adjustment was
9 made to the AES Services FICA expense (Excel row 9). The FICA expense amounts on
10 such Workpaper are carried forward onto Staff **Schedule C-3.12** at lines 5, 6 and 10.

11 **Q. Please explain why excluding the calendar months of March and May would**
12 **substantially lower the actual amount of FICA taxes paid by AES Ohio in the Test**
13 **Year.**

14 A. FICA tax is charged at a rate of 7.65%, which is made up of two components: 6.2% for
15 Social Security and 1.45% for Medicare. Once an employee's taxable FICA wages reach
16 an annual limit, the employers are no longer liable to pay the Social Security portion of
17 FICA taxes. Therefore, FICA taxes are front-loaded to the first half of the year when a
18 meaningful amount of taxable FICA wages exceeds the annual limit. By excluding the
19 months of March and May to determine a monthly average, such average multiplied by
20 twelve months can be substantially lower than the true FICA tax amount.

1 **Q. Can you point to any data that supports your assertion that FICA taxes are front-**
2 **loaded?**

3 A. Yes. Staff WPC-3.12 displays monthly FICA taxes from June 2020 through April 2021,
4 which was provided to Staff by AES Ohio in response to their data requests 80 and 147.
5 On Exhibit **CF1-Supplemental Workpaper C-3.12**, I have supplied those same monthly
6 amounts and then divided them by the number of pay periods in each month to get the
7 average monthly FICA tax per pay period (See Line 7). Starting with June 2020 through
8 to December 2020, the FICA tax decreases every month, with the exception of a minor
9 increase in November 2020 caused by higher base pay in November. The decrease from
10 June 2020 to December 2020 is quite substantial at 35%. The monthly expense increases
11 dramatically again in January 2021 when the cap amount resets.

12 **Q. Why did Staff exclude March in its monthly average for FICA?**

13 A. The Staff Report explained on page 15, "... Staff excluded the March actuals as the FICA
14 tax was abnormally high due to short term bonus payments occurring during the month."

15 **Q. Is it reasonable to exclude March due to the fact that it includes FICA taxes paid on**
16 **STC?**

17 A. No. It's unreasonable for these reasons, which I will explain in further detail below: (i) as
18 I explained, FICA taxes are front-loaded, so even if the goal was to remove FICA on
19 STC, excluding March would remove too much; (ii) the Company is responsible for
20 FICA tax expense on STC, which is part of AES Ohio's total compensation that is
21 consistent with market rates; and (iii) if Staff's goal was to remove the FICA tax related
22 to the financial metrics portion of STC, it would be unreasonable to remove all of the

1 FICA taxes related to STC. Even without any STC, the FICA taxes in March 2021 would
2 be one of the highest months of the year because: (i) very few, if any, employees had
3 reached the Social Security maximum by the start of March 2021 and (ii) nonunion pay
4 raises are made effective on January 1st of each year by paying the employees a true up
5 each March. These true-ups are FICA taxable and an ongoing operating expense.

6 **Q. Please explain why AES Ohio believes that it is unreasonable to exclude any of the**
7 **FICA tax expense on STC.**

8 A. AES Ohio provided extensive support in the prefiled direct testimony and supplemental
9 testimony of Witness Buchanan for including STC expense from the recovery of
10 expenses in this proceeding. Because FICA taxes are an inescapable consequence of
11 paying STC, they should also be included in AES Ohio's operating expenses for
12 ratemaking purposes in this proceeding.

13 **Q. Please explain why you stated, "if Staff's goal was to remove the FICA tax related to**
14 **the financial metrics portion of STC, it would be unreasonable to remove all of the**
15 **FICA taxes related to STC."**

16 A. The Staff Report asserts (pp. 15-16) that 75% of STC should be eliminated, "to remove
17 incentive compensation based on financial metrics." If that is the case, it would be
18 unreasonable to exclude more than 75%, of the FICA related to STC. Further, as stated in
19 the supplemental testimony of witness Buchanan, only 45% of the STC target in 2020
20 was dependent upon Financial Objectives.

1 **Q. You also stated in your objection to the Staff Report FICA expense calculation that**
2 **it, "fails to include the impact that the 1.8% overall pay increase given to AES**
3 **Services employees will have on FICA taxes going forward." Please explain.**

4 A. In March 2021, the employees of AES Services were given an average pay raise of 1.8%,
5 which was retroactively effective January 1, 2021. The Staff's calculations of FICA taxes
6 for AES Ohio union and nonunion employees included 2.75% and 1.8% increases to the
7 months before such union and nonunion pay increases, respectively, occurred in the Test
8 Year. No such adjustment was made for the AES Services pay increase that occurred in
9 the Test Year. Excluding this fixed, known and measurable increase in expenses that
10 occurred in the Test Year understates the level of FICA expenses AES Ohio will
11 experience going forward and would not give the Company the opportunity to recover its
12 expenses going forward with a fair return.

13 **Q. What does the Company propose be included for FICA expense?**

14 A. The Company requests the Commission reject the Staff Report level of FICA expense as
15 unreasonable for the reasons I described. AES Ohio asserts that the distribution FICA
16 expense of \$2,374,408 for AES Ohio employees and \$690,004 for AES Services
17 employees which was included in its original revenue deficiency calculation in this
18 proceeding was reasonable and should be utilized for ratemaking purposes. This is an
19 increase, as compared to the Staff Report, of \$218,597.

20 **Q. Alternatively, has the Company calculated the impact of excluding 45% of the FICA**
21 **expense related to STC?**

1 A. Yes. On Exhibit **CF1-Supplemental Workpaper C-3.12**, I have calculated the average
2 FICA expense for the Test Year months excluding March and including the AES
3 Services pay raise back to the beginning of the Test Year. I then subtracted such 11-
4 month average FICA expense from the level experienced in March 2021 to get the
5 amount that March exceeds the average month. Finally, I multiplied the 11-month
6 average FICA tax by twelve and added 45% of the increase of March over the average to
7 arrive at an annual FICA tax that removes 45% of the raise experienced in March. This
8 calculation resulted in total FICA taxes of \$3,078,127 (See Line 23), which is an increase
9 of \$232,312, as compared to the Staff Report.

10 This method understates FICA taxes (excluding the financial metrics portion of STC)
11 somewhat, because it also removes 45% of the FICA taxes on the retroactive pay
12 increases that occurred in March, and it ignores the fact that AES Ohio's FICA tax for
13 many employees would be the same without STC, because they would still eventually hit
14 the Social Security maximum.

15 **3. Employees' salaries and wages**

16 **Q. Please explain AES Ohio's Objection No. 20 to the Staff Report regarding Staff's**
17 **calculation of AES Ohio employees' salaries and straight-time wages expense.**

18 A. AES Ohio objects on the grounds that the Staff Report calculations (i) erroneously
19 reduced labor expense for the nonjurisdictional portion and the non-O&M portion two
20 times, and (ii) utilize the wrong number of hours to annualize expense.

21 **Q. Please explain what you mean by the Staff Report erroneously reducing labor**
22 **expense for the nonjurisdictional portion and the non-O&M portion two times.**

1 A. The workpapers AES Ohio obtained from Staff that support the Staff Report reflect this
2 calculation flaw (See Exhibit CF5 – Staff Workpaper WPC-3.13DPL). They reflect
3 that the Staff's calculation for AES Ohio employee, straight-time, distribution wages first
4 limits the employee base to only those whose April 2021 pay was charged at least
5 partially to distribution Operating and Maintenance Expense ("O&M") and then
6 discounts the wage calculation to 89.07% for the distribution/jurisdictional portion and
7 59.68% for the O&M portion. The flaws are: (i) 89.07% is the jurisdictional portion of
8 total AES Ohio Test Year wages (from Schedule C-9, line 2, column D), not just the
9 jurisdictional portion for employees that had a portion of their pay charged to distribution
10 O&M; and (ii) 59.68% is the O&M portion of total AES Ohio Test Year wages (from
11 WPC-9.1, line 16, column C), not just the portion for employees that had a portion of
12 their pay charged to distribution O&M.

13 **Q. Can you provide an example of a scenario where the jurisdictional "double**
14 **discount" would happen?**

15 A. Yes. Some employees labor is charged entirely to transmission, while others are charged
16 entirely to a "NonReg" code. The overall Company jurisdictional percentage used by the
17 Staff takes both scenarios into account. Therefore, it would be erroneous to calculate an
18 overall estimate by starting with only employees charging to distribution and then
19 discounting that amount by the overall Company jurisdictional percentage.

1 **Q. Can you provide an example of a scenario where the O&M "double discount"**
2 **would happen?**

3 A. Yes. An employee may have worked on a construction project and had all of their pay
4 capitalized, or they may have worked exclusively on tasks whose expense would be
5 nonoperating, or "below-the-line." Again, the overall Company O&M percentage used
6 by the Staff takes both scenarios into account, so it would be erroneous to calculate an
7 overall estimate by starting with only employees charging to O&M and then discount that
8 amount by the overall Company O&M percentage.

9 **Q. Please explain the error in the Staff workpapers step-by-step.**

10 A. Staff Workpaper C-3.13DPL includes two Excel pivot tables. The one in column A lists
11 ID numbers for full-time AES Ohio employees, limited to those that had a paycheck in
12 April 2021 whereby at least a portion of their pay was charged to "DPLDISTRIB" and
13 "O&M". This excludes any employees whose pay was charged entirely to "Capex" and/or
14 the profit center fields of: "DPLTRANSM", or "NonReg". If one opens this file and
15 changes the pivot table selections, it is evident that there were employees whose pay went
16 entirely to Capex and those whose profit center charged was entirely "DPLTRANSM", or
17 "NonReg".

18 The second pivot table, which starts in column D, lists all of the employees with April
19 2021 pay and shows their straight-time total earnings for the month, along with the
20 number of hours each worked and the straight-time pay per hour. Column H of that same
21 tab multiplies the straight-time pay per hour by 2080 hours for each employee that
22 charged some pay to distribution O&M in April 2021. The total of column H

1 (\$32,999,159) is reflected in cell I469, which is then reduced by applying the
2 jurisdictional and O&M percentages on Staff Schedule C-3.13 in cells E21 and E22. By
3 first limiting the total wage amount of \$32,999,159 to just employees that charged some
4 April 2021 pay to O&M and distribution and then multiplying that amount by the O&M
5 and Jurisdictional percentages, the Staff wage calculation has been double-discounted
6 and is not an appropriate estimate of AES Ohio straight time wage expense going
7 forward.

8 **Q. Why do you believe it is inappropriate to use 2080 hours to annualize wage expense?**

9 A. There are 365 days in a year, plus an additional day every four years, so, on average,
10 there are 365.25 days in a year. A calendar week is 7 days, so there are 52.18 weeks in a
11 year (365.25/7). Full time employees are expected to work a minimum of 40 hours per
12 week. To annualize an hourly pay amount, simply multiply 52.18 by 40, which is just
13 over 2,087. It is my understanding that the Staff calculation used a much simpler
14 estimation that assumed there are exactly 52 weeks in a year and 40 hours per week.
15 Adding just seven more hours to the work year may not seem like much, but with more
16 than 450 employees, it adds an additional \$111,055 to wage expense.

17 **Q. What does the Company propose to correct the Staff Report errors that (i)**
18 **erroneously reduced labor expense for the nonjurisdictional portion and the non-**
19 **O&M portion two times; and (ii) utilized the wrong number of hours to annualize**
20 **expense?**

21 A. The Company has prepared Exhibit CF2 - Supplemental Workpaper 3.13a -
22 Confidential, which I sponsor, that calculates an appropriate estimation for AES Ohio

1 full-time labor.¹ In this calculation, I utilized the Staff approach of annualizing the April
2 2021 payroll, but with two changes: (i) I started with all full-time employees instead of
3 just those that charged something to distribution O&M; and I used 2,087 as the number of
4 hours in a year instead of 2,080. Like the Staff calculation, I divided the total pay per
5 employee by the hours worked in April to arrive at a pay per hour. I then multiplied the
6 pay per hour by 2087 hours and discounted the result by the same jurisdictional and
7 O&M percentages used by Staff. This process results in a jurisdictional O&M expense of
8 \$20,668,229 (See Line 533 of Exhibit CF3-Supplemental Workpaper C-3.13b), which
9 is \$3,126,874 higher than the Staff calculation of \$17,541,355 shown on Line No. 7 of
10 column E in Staff Schedule C-3.13. The Company asks the Commission to utilize our
11 amount of \$20,668,229 for AES Ohio employee full time labor to correct the math errors
12 made by Staff.

13 **Q. Please explain AES Ohio's Objection No. 21 to the Staff Report regarding Staff's**
14 **calculation of AES Ohio employees' overtime wages expense.**

15 A. AES Ohio objects on the grounds that the Staff Report calculations fail to annualize the
16 impact of the 2.75% AES Ohio union employee pay increase, which directly impacts
17 overtime expenses going forward.

18 **Q. Please expand upon your objection.**

19 A. AES Ohio entered into a contract with its union employees that increased their pay by
20 2.75% effective November 1, 2020. This fixed, known and measurable increase to

¹ This workpaper, as well as Exhibit CF5, includes sensitive employee payroll information, which is maintained as confidential by AES Ohio, is not generally known within the Company, and derives independent economic value from maintaining the information as confidential.

operating expenses happened during the Test Year. Because overtime pay is calculated based upon based pay, the 2.75% increase in base pay is also a 2.75% increase in overtime pay. The Staff Report incorporates an overtime pay amount that is simply the actual AES Ohio expense for the year ended April 2021. This amount (i) fails to annualize the 2.75% union pay increase; and (ii) is short by the amount the raise impacted the actual Test Year month of May 2021. Because Staff used the year ended April 2021, instead of the Test Year that is the year ended May 2021, the Staff used May 2020 expense (which does not include the 2.75% raise), instead of May 2021 expense (which did include the 2.75% raise).

Q. What does the Company propose to correct this error?

A. The Company proposes a simple solution whereby an amount be added to the Staff calculation for overtime expense that is the Staff's estimate multiplied by 8/12's and then by 2.75%. This calculation annualizes the 2.75% raise to the eight months in 2020 used by Staff in estimating overtime expense. Staff proposed overtime expense of \$7,201,332 for AES Ohio employees. Multiplying that amount by 8/12's and then by 2.75%, derives an increase of \$132,025 for a total overtime expense of \$7,333,357.

Q. Please explain AES Ohio's Objection No. 22 to the Staff Report regarding Staff's calculation of AES Services salaries and wages expense.

A. AES Ohio objects on the grounds that the Staff Report calculation of AES Services labor on Schedule C-3.13: (i) failed to annualize the 1.8% overall pay increase that became effective January 1, 2021; and (ii) utilized the actual results of May 2020 (which is not part of the Test Year) as a replacement for the Test Year month of May 2021. The 1.8%

1 pay increase is fixed, known and measurable, and occurred within the Test Year, so it
2 should be applied to each month in the Test Year for both the straight time and overtime
3 components of labor. Further, by utilizing May 2020 results as a replacement for May
4 2021, the Staff Report unjustly removes the impact of the 1.8% overall pay increase for a
5 Test Year month in which it was in effect. Staff's calculation of AES salaries and wages
6 is even lower than the actual test year amounts that were provided to them in the
7 Company's responses to DR 8 and DR 9.

8 **Q. What does AES Ohio propose in regards to AES Services distribution salaries and**
9 **wages?**

10 A. The Company believes a simple and accurate solution to the pay increase omission issue
11 is to start with the Staff calculation and add 8/12's of the Staff's wage amounts for
12 Straight time and overtime, multiplied by 1.8%. This calculation would apply the 1.8%
13 pay increase to 8/12's of the Staff calculated amounts so that the known pay increase
14 impacts the April 2020 through December 2020 months that the Staff utilized in their
15 calculations. The impact is an increase of \$98,871 to Straight Time labor expense and
16 \$72 to overtime labor expense for a total increase of \$98,943.

17 **4. Employee benefits**

18 **Q. Please explain AES Ohio's Objection No. 23 to the Staff Report regarding Staff's**
19 **proposal to eliminate 75% of short-term compensation expense ("STC") and**
20 **eliminate 100% of long-term compensation expense ("LTC") for both AES Ohio**
21 **and AES Services employees.**

1 A. As I explained above regarding FICA expenses, AES Ohio provided extensive support in
2 the prefiled direct testimony of Witness Buchanan for including STC and LTC in the
3 recovery of expenses in this proceeding. Witness Buchanan has also supplemented that
4 testimony in response to the Staff Report. Further, on pages 15 and 16 of the Staff
5 Report, Staff asserts that 75% of STC should be eliminated, "to remove incentive
6 compensation based on financial metrics." AES Ohio provided Staff with a financial
7 scorecard illustrating that only 45% of the STC target in 2020 was for Financial
8 Objectives, so it would be inappropriate to remove greater than 45% of STC on the basis
9 of eliminating the financial metrics portion.

10 **Q. Please explain AES Ohio's Objection No. 24 to the Staff Report regarding Staff's**
11 **failure to annualize into STC and LTC the pay increases for both AES Ohio and**
12 **AES Services employees that occurred during the Test Year.**

13 A. AES Ohio objects on the grounds that the pay increases are: (i) fixed, known and
14 measurable; (ii) occurred in the Test Year; and (iii) will directly increase STC and LTC
15 going forward, because both compensation awards are calculated as a percentage of base
16 pay. Excluding these known cost increases from ratemaking in this proceeding would not
17 allow AES Ohio a fair opportunity to recover its ongoing operating expenses with a fair
18 return on rate base.

19 **Q. You stated two objections related to Staff's calculations of LTC. What is the impact**
20 **of each?**

21 A. The impact of eliminating Test Year LTC from AES Services employees is \$584,157,
22 which can be found on Workpaper C-3.12a, line 12, column P in AES Ohio's original

1 petition in this proceeding. To reflect the 1.8% average wage increase for AES Ohio
2 employees effective January 1, 2021, you would simply multiply the actual amount by
3 1.8%, which yields \$10,515. Similarly, Workpaper C-3.14a reflects the impact of
4 eliminating Test Year LTC from AES Services employees is \$149,061 and the impact of
5 annualizing the 1.8% average wage increase for AES Ohio employees on Line 14,
6 column R as \$2,683. In total, as compared to the Staff Report, \$746,416 should be added
7 to Test Year Operating Expenses for LTC for both AES Ohio employees and AES
8 Services employees.

9 **Q. What is the impact of each of your objections to Staff's calculations of STC?**

10 A. Calculations supporting each of the following amounts can be found on **Exhibit CF3-**
11 **Supplemental Workpaper C-3.13b**, which utilizes the Staff Report workpapers for the
12 STC expense, but makes the aforementioned modifications to account for the Company's
13 objections. The impact of eliminating 75% of STC instead of 0% for AES Ohio
14 employees is \$620,884. The impact of eliminating 75% instead of the 45% reflected on
15 the Company's scorecard is \$248,354. The impact of failing to annualize the 1.8% pay
16 increase to STC is another \$14,901 at 100% of STC allowed. The impact of failing to
17 annualize the 1.8% pay increase to just 25% of STC is \$3,725 and \$8,196 for 55% of
18 STC allowed.

19 For AES Services Employees, the impact of eliminating 75% of STC instead of 0% is
20 \$1,349,701. The impact of eliminating 75% instead of the 45% reflected on the
21 Company's scorecard is \$539,880. The impact of failing to annualize the 1.8% pay
22 increase to STC is another \$32,393 at 100% of STC allowed. The impact of failing to

annualize the 1.8% pay increase to just 25% of STC is \$8,098 and \$17,816 for 55% of STC allowed.

Q. Please explain AES Ohio's Objection No. 25 to the Staff Report regarding Staff's calculation of Test Year pension and OPEB expense.

A. As explained in the supplemental testimony of Witness Roach, AES Ohio objects on the grounds that the Staff Report included no adjustment for the net increase in pension and OPEB expense occurring in the Test Year beginning on January 1, 2021.

Q. Did you calculate an amount for pension and OPEB expenses that you propose be used in this proceeding that incorporates the 2020 certified actuarial report?

A. Yes. I annualized the current level of jurisdictional pension and OPEB expense by multiplying the actual per books May 2021 amounts by twelve. The results are as follows:

	AES Ohio Employees		AES Services Employees	
	Pension Expense	OPEB Expense	Pension Expense	Grand Total
Per Staff Report	\$2,815,628	(\$309,527)	\$269,874	\$2,775,975
May 2021 Annualized	3,741,892	(339,758)	306,328	3,708,462
Increase	<u>\$926,264</u>	<u>(\$30,231)</u>	<u>\$36,454</u>	<u>\$932,478</u>

III. CONCLUSION

Q. Please summarize your testimony.

1 A. In summary, I believe the Staff Report included data errors, omitted actual labor and
2 benefits costs incurred by AES Ohio without explanation, and failed to recognize the
3 impacts of fixed, known and measurable pay increases. Such errors, omissions and
4 incorrect presumptions have the effect of significantly understating the level of
5 distribution operating expenses that AES Ohio was incurring by the end of the Test Year
6 and by the time that new distribution rates would have been expected to be put in place in
7 this proceeding under normal circumstances. If the Commission accepts the amounts
8 provided in the Staff Report as a basis for ratemaking, then the resulting revenue
9 requirement will understate AES Ohio's true costs and not allow AES Ohio to earn a fair
10 return on its rate base.

11 Q. Does this conclude your direct testimony?

12 A. Yes, it does.

FICA Tax Actuals Modified to Annualize Test Year Wage Increases													
Line No.	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	
1	AES Services												
2	\$ 38,684	\$ 54,359	\$ 35,685	\$ 37,418	\$ 35,293	\$ 32,592	\$ 46,616	\$ 47,659	\$ 59,215	\$ 277,446	\$ 65,345	\$ 63,635	
3	DPL - Non Union												
4	\$ 59,898	\$ 82,321	\$ 52,087	\$ 44,806	\$ 41,958	\$ 44,725	\$ 59,094	\$ 51,859	\$ 52,447	\$ 94,158	\$ 62,928	\$ 56,430	
5	DPL - Union												
6	\$ 157,653	\$ 206,016	\$ 124,429	\$ 112,554	\$ 105,399	\$ 109,343	\$ 144,472	\$ 126,783	\$ 128,222	\$ 234,339	\$ 156,614	\$ 140,442	
7	Total												
8	\$ 256,236	\$ 342,696	\$ 212,201	\$ 194,778	\$ 182,650	\$ 186,660	\$ 250,182	\$ 226,301	\$ 239,884	\$ 605,943	\$ 284,887	\$ 260,507	
9	# of Pay Periods												
10	2	3	2	2	2	2	3	2	2	2	2	2	
11	Total per Pay												
12	\$ 128,118	\$ 114,232	\$ 106,101	\$ 97,389	\$ 91,325	\$ 93,330	\$ 83,394	\$ 113,150	\$ 119,942	\$ 302,972	\$ 142,444	\$ 130,254	
FICA Tax Actuals - Pre-Wage Increases													
13	AES Services												
14	\$ 38,000	\$ 53,398	\$ 35,054	\$ 36,756	\$ 34,669	\$ 32,016	\$ 45,792	Jan-21					
15	DPL - Non Union												
16	\$ 58,839	\$ 80,865	\$ 51,166	\$ 44,014	\$ 41,216	\$ 43,934	\$ 58,049	\$ 50,942	\$ 51,520				
17	DPL - Union												
18	\$ 153,434	\$ 200,502	\$ 121,099	\$ 109,542	\$ 102,578								
ServCo Wage Increase 1.80%													
Nonunion Wage Increase 1.80%													
Union Wage Increase 2.75%													
11 months average FICA tax expense													
Test Year excluding March													
March 2021 Surplus Over Average													
55% of March Surplus													
Annualized FICA Tax Expense													
Increase vs. Staff Calc													
Per Staff Calc													
25% of March Surplus													
Annualized FICA Tax Expense													
Increase vs. Staff Calc													
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Increase vs. Staff Calc													
Per Staff Calc													
25% of March Surplus													
Annualized FICA Tax Expense													

AES Ohio

**Exhibit CF3
Supplemental Worksheet C-3.13b**

**Support for updated calculations for short-term compensation ("STC")
For the Test Year Ended May 31, 2021**

	Employees		
	<u>AES Ohio</u>	<u>AES Services</u>	<u>Total</u>
Unadjusted Test Year STC*	\$ 827,845	\$ 1,799,601	\$ 2,627,446
Staff proposed level at 25%**	206,961	449,900	656,862
Difference vs. 100%	(620,884)	(1,349,701)	(1,970,585)
STC at 55%	455,315	989,781	1,445,095
Difference as compared to 25%	(248,354)	(539,880)	(788,234)
Pay increase on 100% of STC	\$ 14,901	\$ 32,393	\$ 47,294
Pay increase on 25% of STC	3,725	8,098	11,824
Pay increase on 55% of STC	8,196	17,816	26,012

* From Staff WPC-3.13DPL, Excel cell L49 for AES Ohio employees and Staff WPC-3.13AES, cell G36 for AES Services employees.

** From Staff Schedule C-3.13DPL, Line 11 for AES Ohio employees and Line 26 for AES Services employees.

Amounts at 55% in total	\$ 463,510	\$ 1,007,597	\$ 1,471,107
Increase vs Staff Report	\$ 256,549	\$ 557,696	\$ 814,246
Amounts at 25% in total	\$ 210,687	\$ 457,998	\$ 668,685
Increase vs Staff Report	\$ 3,725	\$ 8,098	\$ 11,824

Exhibit CF4 - Staff Workpaper WPC 3.12
Jurisdictional FICA Tax Expense from June - February
See Response to DRs 6, 10, 80, and 147

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	EXCLUDED		Mar-21	Apr-21	Average Monthly FICA Tax Expense (B) = (A) ÷ 10	Annualized FICA Tax Expense (C) = (B) × 12
AES Services	\$ 38,000	\$ 53,398	\$ 35,054	\$ 36,756	\$ 34,669	\$ 32,016	\$ 45,782	\$ 47,659	\$ 59,215	\$ 277,446	\$ 277,446	\$ 66,345	\$ 66,345	\$ 44,790	\$ 537,485
DPL - Non Union ¹	\$ 59,898	\$ 82,321	\$ 52,087	\$ 44,806	\$ 41,958	\$ 44,725	\$ 59,094	\$ 51,859	\$ 52,447	\$ 94,158	\$ 94,158	\$ 62,928	\$ 62,928	\$ 55,212	\$ 662,547
DPL - Union ²	\$ 157,653	\$ 206,016	\$ 124,429	\$ 112,554	\$ 105,399	\$ 109,343	\$ 144,472	\$ 126,783	\$ 128,222	\$ 234,339	\$ 234,339	\$ 156,614	\$ 156,614	\$ 137,149	\$ 1,645,783

¹For June through February, this applies 1.8% increase to actual FICA tax expense for DP&L non-union employees to account for the wage increase that went into effect in March 2021 (see DR 10).

²For June through October, this applies 2.75% increase to actual FICA tax expense for DP&L union employees to account for the wage increase that went into effect in November 2021 (see DRs 6 and 10)

FICA Tax Actuals - DP&L Non-Union Employees (Pre-Wage Increase)									
	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
DPL - Non Union	\$ 58,839	\$ 80,865	\$ 51,166	\$ 44,014	\$ 41,216	\$ 43,934	\$ 58,049	\$ 50,942	\$ 51,520

Wage Increase 1.80%

FICA Tax Actuals - Union Employees (Pre-Contractual Wage Increase)			
	Jun-20	Jul-20	Oct-20
DPL - Union	\$ 153,434	\$ 200,502	\$ 121,099

Wage Increase 2.75%

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing supplemental testimony has been served via electronic mail upon the following counsel of record, this 25th day of August, 2021:

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Case No(s). 20-1651-EL-AIR, 20-1652-EL-AAM, 20-1653-EL-ATA

Summary: Testimony Supplemental Direct Testimony of Craig A. Forestal - PUBLIC VERSION
electronically filed by Mr. Jeffrey S. Sharkey on behalf of The Dayton Power and Light
Company