BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power & 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 & Light Company for Approval of Revised Tariffs.	)))	Case No. 16-0396-EL-ATA
In the Matter of the Application of The Dayton Power & Light Company for Approval of Certain Accounting Authority Pursuant to Ohio Rev. Code § 4905.13.	)))))	Case No. 16-0397-EL-AAM

DIRECT TESTIMONY OF MATTHEW WHITE ON BEHALF OF INTERSTATE GAS SUPPLY, INC.

****PUBLIC VERSION****

November 21, 2016

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I. INTRODUCTION AND BACKGROUND

Q. Please state your name and title.

A. My name is Matthew White. I am employed by Interstate Gas Supply, Inc. ("IGS" or "IGS Energy") as General Counsel, Legislative and Regulatory Affairs. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of IGS Energy.

Q. Please describe your educational background and work history.

A. I have a Juris Doctor (J.D.) and Masters in Business Administration (M.B.A.) from the College of William & Mary. I also have a Bachelor of Arts (B.A.) from Ohio University. I started my career in energy working at the law firm of Chester, Wilcox & Saxbe as an energy and utilities lawyer. At Chester Wilcox, I participated in numerous regulatory proceedings relating to utility matters, including natural gas and electric rate cases and electric power siting cases. I also have worked on power and gas sales transactions. At the beginning of 2011, I was hired into IGS Energy's rotation program where I spent the next 16 months working in various departments throughout the company, including the electric and gas supply and risk departments, learning IGS' entire business. In 2012, I began full-time as an attorney in IGS' regulatory affairs department. In 2014, I was promoted to Manager, Legal and Regulatory Affairs at IGS. In 2015, I was promoted to my current position, General Counsel, Regulatory and Legislative Affairs. In my current position I oversee the regulatory and legislative activities for IGS Energy throughout the country. My team is responsible for electric and natural gas litigation for IGS Energy, including electric and natural gas rate cases and other proceedings that relate to energy.

Q. Have you submitted testimony in regulatory proceedings before?

A. Yes. I have submitted written testimony in the following cases: Pennsylvania Public Utility Commission Docket Nos. R-2015-2469665' R-2015-2468056; P-2015-2511333, P-2015-2511351, P-2015-2511355, P-2016-2543140 and P-2015-2511356; Public Utilities Commission of Ohio Case Nos. 12-1685-GA-AIR, 13-2385-EL-SSO, 12-426-EL-SSO, 14-841-EL-SSO, 15-50-GA-RDR, 14-1051-EL-UNC, 14-1693-EL-RDR and 14-1693-EL-RDR and 14-1297-EL-SSO; Michigan Public Service Commission Case Nos. U-17131, U- 17332 and U-17882; Kentucky Public Service Commission Case No. 2013-00167; Illinois Commerce Commission Case No. 14-0312; and Maryland Public Service Commission Case No. 9221.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to make recommended modifications to the electric security plan **("**ESP") Application of The Dayton Power and Light Company ("DP&L") that are necessary to improve the landscape of the competitive retail electric service ("CRES") market in DP&L's service territory. Specifically I recommend that:

- DP&L be required to charge costs required to support standard service offer ("SSO") customers directly to the SSO price. As I explain in my testimony, currently DP&L recovers many of its default service support costs through distribution rates. For these reasons, I recommend that the Public Utilities Commission of Ohio ("PUCO" or "Commission") establish a bypassable default service support rider ("Rider DSS") designed to recover costs used to support default service. The Commission should then flow back all dollars recovered through Rider DSS to all distribution customers through a default service support credit ("DSS Credit"). The net impact of my proposal would result in **a**

credit of $0.0039 per kilowatt-hour ("kWh") to shopping customers and an additional charge of $0.0033 per kWh for SSO customers, leaving DP&L revenue neutral.[1]

- The Commission should require DP&L to begin taking steps necessary to implement supplier consolidated billing as prescribed in their current tariffs. The Commission should also affirm that CRES providers are able to use the bill-ready function to bill for a more diverse range of products as explained in my testimony.

- I also recommend that the Commission reject DP&L's application for its Distribution Modernization Rider ("DMR"). The DMR is designed to provide DP&L's parent -- DPL, Inc. -- with financial assistance, which it requests largely because AES Corporation ("AES") over leveraged its acquisition of DPL, Inc. However, DP&L owns competitive generation, and to the extent the use of funds to DMR would be unrestricted, DMR could potentially distort competitive generation markets in Ohio and harm competition.

II. <u>ALLOCATION OF COSTS</u>

Q. Do you recommend that the Commission take measures that would encourage customers to engage in Ohio's competitive retail electric markets?

A. Yes. I recommend that the Commission adopt measures for moving Ohio's competitive retail electric markets forward in a way that encourages customer engagement. In order for customers to be more willing to adopt value-added products and services that enable them to use and consume energy more efficiently, customers must be engaged in the competitive retail electric market. Unfortunately, the current SSO service discourages

[1] MW1.

customer engagement and encourages customers to view electric service as a commodity-only product over which they have no control. As such, I encourage the Commission to adopt proposals that encourage customers to affirmatively choose a retail electric product based on the preferences of the customer.

Q. Are there measured steps that the Commission could take to encourage residential customer engagement in DP&L's retail electric markets?

A. Yes. The easiest way to promote competition would be to structure DP&L's SSO product as a true provider of last resort service, where the SSO product is only a back-stop service available to customers when no other product in the market is available. Limiting default service in such a manner would eliminate inequities, avoid anti-competitive advantage, and provide the surest route to effective competition. However, recognizing that Ohio is transitioning to fully competitive retail electric markets for DP&L's next ESP, at a minimum, the Commission should ensure that the SSO product being offered by DP&L is an unbundled product comparable to other retail electric products in the market. Specifically, the Commission should unbundle the costs DP&L incurs in distribution rates that are required to support SSO service and reflect those costs in the SSO price. This would be an important step toward ensuring that the SSO product is comparable to other products in the market.

Q. What does it mean to unbundle costs?

A. Currently, DP&L's SSO price is essentially a pass-through of wholesale capacity and electric costs. However, DP&L incurs a number of other actual costs required to support SSO service, but those costs are not reflected in the SSO price; instead they are recovered through DP&L's distribution rates. Ohio's regulatory structure requires that the SSO price be comparable and non-discriminatory to other products and services in the market. Further, Ohio's regulatory structure prohibits subsidies flowing from distribution rates to SSO service. Thus, DP&L's SSO price should reflect all of the costs required to support SSO service, and those costs should not be recovered through distribution rates.

Q. Is DP&L already proposing to allocate costs incurred to support default service to the SSO price?

A. Yes, but only a small portion of those costs. In this proceeding, DP&L is proposing to allocate to the SSO the costs paid to the outside consultant to conduct the SSO auction and a small amount of costs to account for cash and working capital.[2] While I certainly support this cost allocation, these are only a very small percentage of the costs DP&L incurs to support default service, and thus, as I explain further herein, significantly more costs should be allocated to the SSO rate.

Q. Can you please give examples of additional costs DP&L incurs to support SSO service but are recovered through distribution rates?

A. Yes. There are a number of costs DP&L incurs required to support SSO service. Those costs include:

(1) Call center infrastructure and employees to maintain appropriate customer service for SSO customers;

[2] Direct Testimony of Eric Brown at 11.

(2) Outside and inside legal, regulatory, and compliance personnel to comply with the regulatory rule requirements for the SSO;

(3) IT employees, infrastructure, and software;

(4) Office space for employees;

(5) Administrative and human resources staff to support the employees;

(6) Office supplies;

(7) Accounting and auditing services;

(8) Printing and postage to communicate with customers;

(9) Uncollectible expense; and

(10) The regulatory assessments for the PUCO and the Ohio Consumers' Counsel ("OCC") that are based on SSO generation revenue, but are recovered through distribution rates.

All of these costs are not reflected in the SSO price but rather recovered through distribution rates.

Q. Do CRES providers incur all of the costs above in order to offer a retail product in the market?

A. Yes. For instance, CRES providers incur legal and compliance expense to meet extensive regulatory requirements to offer a product in the market. CRES providers must pay the PUCO and OCC assessments based on their generation revenues. CRES providers incur uncollectible expense and collection costs. CRES providers must maintain a call center, and provide other account management services to customers. CRES providers have overhead expense including IT and office space. All of these expenses are required to make a retail product available in the market. CRES providers must reflect these costs directly in the prices they charge customers. Conversely, SSO service incurs these costs, but the costs are recovered from all distribution customers, which CRES customers also pay. Thus, CRES customers are paying not only for their own generation product, but they are also paying to support SSO generation service through distribution rates.

Q. Does subsidizing SSO costs through distribution rates have anti-competitive effects?

A. Yes. The SSO price is a product that all products compete against. According to the PUCO shopping statistics, 56% of residential DP&L customers receive service on the utility SSO rate.[3] Thus, the SSO product has by far the largest market share for the residential customer class. Therefore, to the extent that the SSO is subsidized and artificially low, it harms all other products that must compete against the SSO. Ultimately, subsidizing the SSO leads to less competition in the DP&L service territory and fewer products being available to customers.

Q. If DP&L exited the default service role, would there be a need to unbundle costs from distribution rates?

A. No. If DP&L no longer provided default service, and default service was eliminated or transformed into truly just back-stop service provided by the competitive market, there would be no need to unbundle costs from distribution rates and charge those costs to the SSO, to the extent that DP&L continued to incur those costs. However, as long as

[3] http://www.puco.ohio.gov/puco/index.cfm/industry-information/statistical-reports/electric-customer-choice-switch-rates-and-aggregation-activity/electric-switch-rates-by-customer/customers-2q2016/.

DP&L continues to maintain its current role as the default service provider wherein customers do not need to affirmatively choose a retail product in the market, *at a minimum*, default service should not be subsidized through distribution rates or any other customer charge that all customers are required to pay regardless of shopping status.

Q. How should the Commission treat the costs DP&L incurs for procuring SSO service for customers that are currently being recovered through distribution rates?

A. The Commission should start allocating these costs to the SSO price. The cost of providing retail electric service consists of more than just a pass-through of wholesale energy prices. As noted already, there are a number of non-electric costs that are incurred to offer SSO service to residential electric customers that are currently being recovered through distribution rates.

Q. Would unbundling result in higher prices paid for by customers?

A. No. Unbundling can be done in a revenue-neutral manner. Thus, under my proposal all costs recovered through SSO customers would be flowed back to all distribution customers resulting in net revenue neutrality to all customers.

Q. Have other states with competitive retail electric markets unbundled costs to support default service from electric utility distribution rates and charged those costs to default service?

A. Yes. Ohio is significantly behind when it comes to ensuring that the default service price reflects the full costs of providing retail electric service. In the states of Pennsylvania, Maryland, Texas, Illinois, and New York, a number of non-commodity costs required to support the default service are actually charged to the default service. Those include the cost of IT, legal fees, infrastructure, customer service, cost of working capital, and employee time to name a few. Although as noted above, Ohio's regulatory structure requires that Ohio utilities also do this kind of unbundling, the utilities in Ohio have yet to begin this process. Ohio continues to treat default service price as just a pass-through price for wholesale electric costs and other costs required to support SSO service are not included in the default rate.

Q. Why is it important that the SSO price reflect all of the costs required to support the SSO?

A. First, Ohio's regulatory structure requires that the SSO price be an unbundled comparable price to a *retail* electric product in the market. Second, if the SSO price does not reflect the full costs required to support that service, it will discourage competition (particularly for the residential class) in Ohio's retail electric markets. By encouraging customers to remain on SSO service, the Commission is effectively adopting a policy that discourages engagement in the retail electric markets. In the long run, a disengaged market will miss out on the multitude of innovative products and technologies that will enhance Ohio's electric reliability and enable customers to use energy more efficiently.

Q. What do you recommend the Commission require DP&L to do with respect to unbundling of the costs required to support SSO service?

A. I recommend that the Commission require DP&L to start the process of unbundling costs required to support SSO service. Those costs should include, at a minimum, a portion of the following costs:

- DP&L employee costs;
- Uncollectible expense;
- IT and other infrastructure costs;
- Customer care costs;
- Legal costs; and
- Compliance costs

These costs that I have identified are incurred to support SSO service. Based on the above costs, the Commission should establish a by-passable Default Service Support rider ("Rider DSS") and begin collecting these costs directly from SSO customers. The Commission should then flow back all revenue collected through Rider DSS to all distribution customers through a default service support credit ("DSS Credit").

Q. Have you evaluated DP&L's distribution rates and identified costs that should be included in Rider DSS?

A. Yes. DP&L recently filed a proposed distribution rate case increase (Case Nos. 15-1830-EL-AIR et al.). In that filing, DP&L included requested increases in both operation and maintenance expense as well as in base distribution rates. The information supporting DP&L's proposed increase is contained in the B and C Schedules. By analyzing DP&L's B and C schedules and through a combination of discovery responses, I have been able to identify $28,333,028 million in costs that should be allocated to SSO service.[4] Based upon current levels of shopping, Rider DSS should be established at a minimum of $0.0072 per kWh, which reflects the costs embedded in DP&L's proposed distribution rates that should be allocated to SSO customers.[5] Further, based on DP&L's current shopping levels a $0.0072 per kWh Rider DSS would amount to a $0.0039 kWh credit to all distribution customers, including shopping customers.

Q. Can you explain how you concluded that $0.0072 per kWh to the SSO rate?

A. There are four areas of DP&L's distribution expenses that I identified as areas that relate to SSO service: Customer Accounts Expense,[6] Customer Service and Information Expense,[7] Administrative & General ("A&G") Expense, and Taxes Other than Income Taxes.[8] These categories include costs, such as uncollectible expenses associated with default service customers, PUCO and OCC assessments, legal and regulatory expenses, payroll taxes, call center costs, and infrastructure costs, and several other categories of costs I have identified throughout my testimony. For example, DP&L proposes to include $1.82 million in A&G expense related to its PUCO and OCC Assessments.[9] Each of these expense line items includes costs needed to support both distribution and SSO service. After making the appropriate company adjustments, you

[4] MW1.

[5] *Id. See* also MW-9, Line 3 Column L (containing a forecast of SSO sales provided in ERB 2.1).

[6] (MW2) (DPL Schedule C-2 line 12); *see also* MW6.

[7] MW2 (DPL Schedule C-2 line 13); *see also* MW6.

[8] MW2 (DPL Schedule C-2 line 14); *see also* MW6.

[9] MW7 (containing DP&L Response to IGS INT 6-1). Based on the assessment amounts paid by DP&L in 2015, the appropriate amount to allocate to default service is $705,524. *See generally* MW3 Revenue Allocation Factor.

are left with $68,806,933 of eligible expenses that need to be allocated equitably between both distribution and default service customers.

Table 1

Schedule	Line	Description	Unadjusted Jurisdictional Revenue & Expenses	DP&L Adjustements	RESA/IGS Adjustments	Adjusted Jurisdictional Revenue & Expenses
C-2	12	Customer Accounts Expense	$ 45,587,070.00	$(30,173,863.00)	$ 3,643,913.00	$ 19,057,120.00
C-2	13	Customer Service and Information Expense	$ 23,593,776.00	$(23,523,402.00)	-	$ 70,374.00
C-2	14	Administrative & General Expense	$ 45,373,699.00	$ 1,705,725.00	-	$ 47,079,424.00
C-2	22	Taxes Other Than Income Taxes	$ 104,708,806.00	$ (47,899,726.00)	$ (54,209,065.00)	$ 2,600,015.00
				Total:		$ 68,806,933.00

Table Source: MW2 and MW6 (DP&L Schedule C-2 Case No. 15-1830-EL-AIR, et al.)

Q. Of the $68,806,933 identified above, how much should be allocated to the SSO?

A. Based on the expenses identified in Table 1, I have identified $26,613,010 in costs that should be collected from Rider DSS to cover infrastructure, operation, financial, and other expenses incurred in order to offer the SSO product to customers.[10]

Q. How did you arrive at $26,613,010 of allocated costs from the original $68,806,933?

A. The costs listed in each category support both distribution service and SSO service and therefore there is a need to allocate costs to both services, not just distribution services. In order to do this, I chose to allocate costs based on the amount of SSO revenue DP&L

[10] MW2.

receives from customers. I developed an allocation factor based upon the relationship of DP&L's SSO revenue to total DP&L revenue.[11] Specifically, I divided DP&L's SSO revenue by DP&L's total revenue collected from customers to get an allocation factor of 38.68%, which is the percentage of DP&L's total costs in the four categories that I identified that should be added to the SSO service.

Table 2

SSO Revenue (DP&L)	$280,458,250.31
Total Revenue (DP&L)	$725,114,198.15
Allocation Factor	38.68%

Table Source: See footnote 11

Q. Why did you choose SSO revenue as a means to calculate your allocation factor?

A. SSO revenue is a reasonable proxy to calculate the actual expense DP&L incurs in order to support default service. For instance, if 38.68% percent of DP&L's revenues comes from default service, it is reasonable to conclude that 38.68% of the costs in the four categories I identified should be allocated to default service as well.

Q. Are you allocating a portion of all of DP&L's expenses to default service?

A. No. I only am including a small number of DP&L distribution accounts (4 line items) in the costs. These accounts, which I have identified, contain costs that are being incurred to support to the SSO. For instance, Customer Account Expense contains customer

[11] MW3 (derived from DP&L-AIR 0009090); *see also* MW7 (DP&L Response to IGS INT-1-2 in Case No. 15-1830-EL-AIR).

care and account management costs DP&L incurs to support the SSO. DP&L also recovers items such as the PUCO and OCC assessment, legal and compliance and other costs required to support default service through the General and Administrative account. All of these are items directly support SSO customers and also are costs CRES providers incur that are directly reflected in CRES generation pricing. DP&L has several other distribution accounts which I have not included in my calculations. While there may be SSO-related costs in these other distribution accounts, I chose not to allocate any of these costs to the SSO in order to take a conservative approach in my cost allocation methodology.

Q. Did you make any adjustments to DP&L's total revenue amount which was used as an input to calculate the revenue allocation factor?

A. Yes. I eliminated the Service Stability Rider from DP&L's total revenue, which the Supreme Court of Ohio determined provided DP&L with unlawful generation-related transition revenue.[12] In addition to being unlawful, this revenue could not be properly characterized as default service-related or distribution-related, although one might argue that it was authorized to provide a revenue stream to generation assets that formerly provided default service. I also excluded rider revenues associated with Discount EER, Discount Eco Development Program, Offpeak Meter Charge, rate stabilization charge, Environmental Investment Rider, and Other Various Charges. I omitted these riders because they had a de minimis impact on the calculation. Had those items been included

[12] MW3.

in the calculation, the revenue allocation factor would have been higher, having the effect of allocating additional costs to default service.

Q. Did you also review DP&L's rate base investments that should be allocated to default service?

A. Yes, I have reviewed various categories of costs that DP&L included in its rate base and identified a subset of those costs that appear to have default service-related purposes. I then identified the portion of those costs that DP&L proposed to include in its base distribution rates and applied the allocation factor I derived to identify portions of DP&L's rate base (depreciation, return of debt interest, return on equity, and grossed up for income taxes) that should be allocated to default service customers to achieve a more equitable allocation of costs.[13] The total amount that I identified is $1,720,017.[14]

Q. What is the total amount you have identified that should be allocated to default service?

A. The total amount I have identified is $28,333,028.[15]

Q. How should the $28,333,028 be collected from the correct customer segment?

A. The money should be collected through a volumetric bypassable Rider DSS. The amount per kWh would be calculated through dividing the identified default service-related costs by the SSO throughput from the previous year. All of the revenue

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[13] *See* MW8 (containing debt and equity rates utilized); *see* MW6, Schedule A-2 (containing gross revenue conversion factor); *see also* MW4.

[14] MW4; Confidential MW5.

[15] MW1; *See also* MW2 and MW4.

generated by the rider for each customer class, would then be distributed to all customers within the classes from which the revenue is collected (DSS Credit). The rider/credit structure provides a revenue-neutral mechanism for DP&L while also allocating costs more equitably.

Q. What would be the net impact of your proposal to SSO residential customers and to Choice residential customers?

A. Given the numbers outlined in my testimony, the Rider DSS amount for 2016 would be $0.0072 per kWh for residential customers.[16] DP&L reported 2015 SSO throughput at 3,928,593,462 kWh.[17] The rider amount was calculated by dividing the expenses of $28,333,028 by the SSO throughput.[18] I have also calculated the DSS Credit to be $0.0039 per kWh for a residential customer. **Thus, the net impact of my proposal would result in a credit of $0.0039 per kWh to shopping customers and a charge of $0.0033 per kWh to SSO customers ($0.0072 - $0.0039 = $0.0033).**[19]

Q. Would the DSS Credit need to be true-up periodically to prevent any over-or under-recovery of revenue by DP&L?

A. Yes. Under my proposal, the per-kWh Rider DSS would remain the same for the duration of the ESP period. However, because shopping levels will vary in the DP&L service territory, the DSS credit will need to be trued-up and reset periodically to account for

[16] MW1.

[17] MW9 (Direct Testimony of Eric R. Brown, Exhibit ERB 2.1 at 1.)

[18] MW1.

[19] *See* MW1.

over- or under-recovery by DP&L and changes in shopping. Therefore, I recommend that every 6 months DP&L re-calculate the DSS credit returned to all distribution customers to ensure it is not over- or under-recovering costs.

Q. Can you please summarize your recommendations with respect to unbundling costs?

A. Yes. I recommend that the Commission modify DP&L's ESP to:

- Establish a by-passable Rider DSS set at $0.0072 per kWh for the duration of the ESP Period;
- Establish a $0.0039 per kWh DSS Credit refunded to all distribution customers;
- Order that DP&L true-up and adjust the DSS Credit every 6 months to ensure that DP&L is not over- or under-recovering funds from Rider DSS.

III. <u>SUPPLIER CONSOLIDATED BILLING</u>

Q. Why is it important for CRES providers to have flexibility when billing for electric service?

A. More and more customers are demanding value added products and services with their electric commodity. Therefore, it is important to be able to bill for value added products and services in a way that is convenient for customers. For instance, if a customer enrolls in a product with a CRES that includes the electric commodity, a smart-thermostat, energy monitoring, energy efficiency and demand response, the customer does not want separate bills for each individual component of that product. Further, customers may not even want a separate price for each service, but rather may want a bundled all-in price. Therefore, in order for CRES providers to offer value added products and services that customers prefer it is important to have billing flexibility for electric service.

Q. Do DP&L tariffs currently allow for supplier consolidated billing?

A. Yes. DP&L Tariff Sheet No. G8 of the Electric Generation Service Alternative Generation Supplier Coordination Tariff allows CRES providers to bill on behalf of DP&L and collect and remit receivables for DP&L; therefore currently supplier consolidated billing is authorized in the DP&L service territory.

Q. Functionally, does DP&L allow CRES suppliers to participate in its supplier consolidated billing tariff?

A. No. It is my understanding that DP&L has not developed the systems required for CRES providers to participate in the supplier consolidated billing program.

Q. How does supplier consolidated billing work?

A. Under the supplier consolidated billing model, the CRES providers purchases the receivables from the utility for the utility distribution charges upfront, making the utility whole for all electric distribution charges and other regulated charges the utility may be authorized to collect from customers. After the CRES purchases the receivables from the utility, the CRES is then responsible for collecting and billing all electric distribution and generation charges from the customer. Under the supplier consolidated billing model, the customer does not receive a bill from the utility.

Q. How does supplier consolidated billing differ from utility consolidated billing?

A. Supplier consolidated billing would enable CRESs to provide customers with a single bill for all the components of electric service, including the non-commodity components. Supplier consolidated billing is similar to utility consolidated billing in that the customer will receive only one bill for electric distribution and generation service. However, with supplier consolidated billing model, the CRES issues the bill to the customer instead of the utility.

Q. **Under supplier consolidated billing, would non-payment of non-commodity charges trigger disconnection protocols toward a customer?**

A. No. While CRES would be able to bill non-commodity charges on the customer's bills, with supplier consolidated billing, failure to pay non-commodity charges would not trigger disconnection for the customer. Disconnect would only be applicable to electric charges and be subject to the same laws and procedures as today. Further, it would still be the utility's responsibility to initiate the physical disconnect for the customer.

Q. Would CRESs still have to abide by the same billing rules and billing format as the EDUs if supplier consolidated billing is adopted?

A. Yes. Currently Ohio has rules that govern how utilities must bill customers and have specific requirements for each utility bill. Under supplier consolidated billing, CRESs would still be subject to the same billing requirements in the rules and statutes today.

Q. Are you recommending supplier consolidated billing as an alternative to requiring DP&L to allow CRES providers to use the bill-ready billing functionality to bill for non-commodity charges?

A. As I explain further below, I am recommending that the Commission allow CRESs to use the DP&L bill-ready function to bill for non-commodity charges for utility consolidated billing *and* that the Commission order DP&L to implement supplier consolidated billing. It will likely take more time for DP&L to build out its systems in a manner needed to implement supplier consolidated billing so in the meantime CRESs should be able to use the DP&L bill-ready option to bill for non-commodity charges.

Q. How do you recommend that the ESP Application be modified to allow for supplier consolidated billing?

A. I recommend that the Commission modify the ESP Application to require DP&L to expeditiously develop the systems necessary to effectuate the supplier consolidated billing option for CRES suppliers and order DP&L to make any IT updates and changes to its tariffs and billing manuals.

Q. Do you recommend DP&L receive cost recovery for the necessary system upgrades to implement supplier consolidated billing.

A. Yes. I recommend DP&L receive cost recovery authorization from the Commission to implement supplier consolidated billing.

IV. <u>BILLING FOR NON-COMMODITY CHARGES</u>

Q. Do you recommend DP&L allow CRES providers to bill for non-commodity charges on the utility consolidated bill while DP&L is rolling out the functionality for supplier consolidated billing?

A. Yes.

Q. Does DP&L allow CRESs to bill for non-commodity products and services on the EDU bill?

A. Not that I am aware of.

Q. Would DP&L have the functionality to allow CRESs to bill for non-commodity charges on the EDU bill?

A. Currently DP&L offers bill-ready billing to CRESs on the utility consolidated bill. Bill-ready billing provides CRESs a specific number of line items to put specific charges on the EDU bill. However, currently DP&L only allows CRESs to put commodity charges on the EDU bill. I am simply requesting that DP&L also allocate some of those line items to non-commodity charges.

Q. Do you recommend that CRES non-commodity charges should trigger customer disconnect?

A. No. Processes should be put in place to ensure that past due non-commodity charges do not trigger disconnect.

Q. Would CRESs be willing to pay for the cost to allow to bill for non-commodity products and services?

A. Yes. To the extent there are any additional costs required to allow CRESs to bill for non-commodity charges on the utility consolidated bill, CRES would be willing to pay reasonable fees to cover the costs. Those charges could come in the form of an upfront set-up fee or a per bill fee.

Q. Are you aware of other utilities that allow for non-commodity billing on the utility bill?

A. Yes. Vectren Energy Delivery of Ohio allows for competitive gas suppliers to bill for certain non-commodity charges. Further, Duke Ohio, First Energy Ohio and AEP Ohio allow for certain non-commodity charges to be billed on the utility bill for select third party companies. Therefore, the Commission can look at other utilities in Ohio to determine appropriate procedures and practices for non-commodity billing.

Q. What is your recommendation with respect to CRES billing for non-commodity charges?

A. I recommend that the Commission order that a working group be established to determine the rules and procedures required to allow CRESs to bill for non-commodity charges on the EDU bill. Within three months Staff should file in a separate docket those rules and procedures for interested party comment and Commission approval. CRESs should be allowed to bill for non-commodity charges on the EDU bill in no later than 9 months from approval of this ESP.

V. THE DISTRIBUTION MODERNIZATION RIDER ("DRM")

Q. What is the DMR?

A. DP&L has proposed the DMR as a $145 million per year ($1.015 billion over the ESP) financial integrity charge to support the operations of both DP&L and DPL Inc. As stated by Craig Jackson: "DP&L is requesting that the Commission approve a seven-year non-bypassable DMR that would recover $145 million per year with no true-up. The cash flow from this rider would ensure: (a) that both DPL and DP&L could reach an appropriate capital structure and maintain their financial integrity, and (b) that DP&L would have access to equity and debt capital in order to finance transmission and distribution infrastructure modernization investments."[20]

Q. Do you support authorizing the DMR?

No. I do not support the DMR for several reasons. First, I do not support providing a revenue stream to DP&L that is unrelated to a service provided to its customers. Second, I do not support providing revenue through the DMR to allow AES to retire debt associated with its acquisition of DPL Inc. and DP&L. Third, the DMR allows DP&L to recover stranded cost long after the time frame for such recovery is allowed under Ohio's regulatory structure.

Q. Can you expand on why the DMR does not relate to distribution service?

A. Yes, although the DMR includes the word "distribution" in its title, it does not in fact relate to the provision of a service provided to distribution customers in Ohio. Instead, as DP&L admits, the DMR is designed to ensure that DP&L's parent company, DPL Inc., receives a targeted amount of cash flow to debt from DP&L upstream dividends. The DMR is designed to fill the gap in DP&L's projected total amount of earnings that would occur absent the DMR. DP&L does not provide a service to customers for the revenue that it will collect under the rider. In other words, it is not tied to utility investment or expenses incurred by DP&L. The DMR is effectively a subsidy—in the form of additional revenues in excess of normal operations—to prop up the earnings of an unregulated

[20] Direct Testimony of Jackson at 12.

entity, DPL Inc. The Commission should not authorize DP&L to collect revenue through the DMR rider without ensuring that customers receive something in return tied to DP&L's distribution costs. Likewise, allowing DP&L to use the DMR to increase its balance of equity does not relate to a service provided to customers—it just increases the capital at DP&L's disposal. Moreover, the utilization of the DMR to increase the equity in DP&L's capital structure is merely an attempt to replace equity that DP&L wrote off as a result of a recent generation-related impairment it recorded.[21] As discussed below, that would provide DP&L with the equivalent of transition revenue.

Q. Why is the DMR troubling for the competitive market?

A. Besides the moral hazard of propping up AES for a business decision to use a significant amount of debt to purchase DPL, Inc., the DMR has implications on the competitive generation markets. DP&L currently owns and operates competitive generation assets. To the extent that the revenue from the DMR is used to prop up those assets, the DMR has the potential to distort competitive generation pricing in a manner that is harmful to competition.

Q. Are there any other issues with authorizing the DMR to allow DPL Inc. to service and retire its debt?

A. Yes. The debt that currently resides at DPL Inc. is largely the result of AES' acquisition of DPL Inc. In order to finance AES' acquisition of DPL Inc., AES formulated a subsidiary, Dolphin Subsidiary II, Inc. ("Dolphin Sub."). According to DP&L's responses to discovery and AES documents filed with the Securities Exchange Commission,

[21] Direct Testimony of Craig Jackson, CLJ-4 Line 45.

Dolphin Sub borrowed $1.25 billion to finance the merger and pushed that debt onto DPL Inc. following the consummation of the merger:

> Please see IGS 2nd Set RPD-2-1 Attachment 26, DP&L-SSO 0007603 - DP&L-SSO 0007605 (AES 8-K filed 10-5-11), which states that “On October 3, 2011, Dolphin Subsidiary II, Inc. (the "Company"), a newly formed, wholly owned special purpose indirect subsidiary of The AES Corporation ("AES"), entered into an indenture (the "Indenture") with Wells Fargo Bank, N.A. (the "Trustee") as part of its issuance of $450 million aggregate principal amount of 6.50% senior notes due 2016 (the "2016 Notes") and $800 million aggregate principal amount of 7.25% senior notes due 2021 (the "2021 Notes" and together with the 2016 Notes, the "notes") to finance the pending AES acquisition (the "Acquisition") of DPL Inc. ("DPL") That same document also stated that "The proceeds from issuance of the notes were deposited into an escrow account pledged for the benefit of the Trustee pending the consummation of the Acquisition."

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> “In connection with the closing of the Merger (see Note 2), DPL assumed $1.25 billion of debt that Dolphin Subsidiary II, Inc., a subsidiary of AES, issued on October 3, 2011 to finance a portion of the merger."

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> “Effective on the Merger Date, DPL assumed all obligations with respect to the $450 million aggregate principal amount of 6.50% senior notes due 2016 (the "2016 Notes") and $800 million aggregate principal amount of 7.25% senior notes due 2021 (the "2021 Notes" and together with the 2016 Notes, the "Notes") previously issued by Dolphin Subsidiary II, Inc. ("Dolphin II"), a wholly-owned special purpose indirect subsidiary of AES. The Notes were issued in a private offering on October 3, 2011 and the proceeds from the offering were deposited into an escrow account pending the consummation of the Merger. In connection with the consummation of the Merger, the funds were released from the escrow account to fund the consummation, and Dolphin II was merged with and into DPL, with DPL continuing as the surviving company. As a result, DPL assumed all obligations under the Notes and the Notes are no longer subject to the special mandatory redemption provision relating to the consummation of the Merger contained in the indenture (the "Indenture") relating to the Notes."[22]

[22] MW10 (DP&L Response to IGS INT 4-1 (a)-(c)).

Q. Why do you take issue with using the DMR to pay off debt related to the acquisition of DPL Inc. and DP&L?

A. Initially, the Commission should not allow this to occur because in Case No. 11-3002-EL-MER, DP&L, DPL Inc., and AES all represented in the merger case that "Applicants agree that neither the costs incurred directly related to the negotiation, approval and closing of the merger nor any acquisition premium shall be eligible for inclusion in rates and charges applicable to retail electric service provided by DP&L."[23] But that is exactly what DP&L is trying to do in this case—make AES whole for the $1.25 billion it borrowed and pushed onto DPL Inc. during the merger. Moreover, it represents bad public policy to guarantee the earnings of a utility holding company—or a midstream entity as is the case here—that provides no service to customers. DPL Inc. owns DP&L and a soon-to-be created generation company. Like any other unregulated business, earnings should be limited to those produced by its operations and subsidiary dividends—without regulatory interference.

Q. What are stranded costs and how does the DMR provide that type of recovery?

A. Stranded cost recovery, or sometimes referred to as transition revenue, is the recovery of generation-related revenue and/or investment that a utility cannot recover in a competitive market. Utilities historically recovered the revenue associated with these costs through regulated rates from captive customers. But, after Ohio restructured its electric market, customers were given an option to choose a competitive supplier. As a

[23] *In the Matter of the Application of The AES Corporation, Dolphin Sub, Inc., DPL Inc. and The Dayton Power and Light Company for Consent and Approval for a Change of Control of The Dayton Power and Light Company,* Case No. 11-3002-EL-MER, Stipulation and Recommendation at 4 (Oct. 26, 2011) (hereinafter "*Merger Case*"). *See also*, *Merger Case*, Finding and Order at 9 (Nov. 22, 2011); *see also* MW11 (Containing DP&L's Merger Application and Reply Comments)

result of competition, utilities sold excess generation not utilized to serve retail customers under default service into the wholesale market. To the extent that the combined revenues associated with default service and the wholesale market did not provide utilities with a sufficient return on investment, the investment associated with the generation units is "stranded."

Q. Does the DMR provide DP&L with stranded cost recovery?

A. Yes, as indicated above, the proposed DMR was calculated based upon a projected amount of income that would result from all DP&L generation, distribution, and transmission operations to ensure that DPL Inc. receives a certain dividend (or cash flow to debt). It is clear that the DMR is designed to mitigate a shortage in generation revenue that DP&L will earn in the wholesale market.[24] Indeed, DP&L witness Jackson admits as much in his testimony, stating that the negative outlook necessitating the DMR is being caused by:

- Lower revenues resulting from reversal of DP&L's second ESP case—on the basis that DP&L was collecting unlawful generation-related transition revenues;
- Lower PJM Interconnection, LLC capacity prices; and
- "Natural gas has continued to trade around historically low prices, which has impacted power prices and ultimately, the $/MWh energy margins or 'dark spreads' realized by coal plants have decreased due to low power prices."[25]

[24] DP&L does not utilize its generation assets to serve standard service offer customers under legacy rate structures. Therefore, DP&L's generation assets earn revenue solely based upon their dispatch cost relative to wholesale market clearing prices.
[25] Direct Testimony of Jackson at 8.

According to witness Jackson, "[a]ll of the factors mentioned above have strained the financial performance of DPL and DP&L, reduced cash flow forecasts, and adversely impacted the financial outlook of both companies."[26] Therefore, it is clear that DP&L's projected revenue shortage is related to its underperforming generation assets. The DMR would allow DP&L to recover stranded cost long after the time frame for such recover is allowed under Ohio's regulatory structure.

Q. How would utilizing DMR revenue to increase DP&L's equity provide transition revenue?

A. DP&L recently reported a sizeable impairment of its generation assets. An impairment must be recorded when the projected future cash flows of a long-lived asset will not recover the carrying cost of the asset. The impairment is reflected on Exhibit CLJ-4 to DP&L witness Jackson's October 11, 2016 testimony as $584 million. The effect of an impairment is to reduce common equity, and therefore tilt the capital structure toward debt. DP&L alleges that one of the purposes of the DMR is to allow it to "reach an appropriate capital structure."[27] What DP&L is really indicating is that the DMR will allow it to replace the equity that it wrote down as a result of the impairment of its generating assets. It would be unjust and unreasonable to make DP&L whole for revenues that it otherwise could not collect in the competitive generation markets.

Q. Is the DMR related to a shortage in distribution or transmission revenue?

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[26] *Id*.
[27] Direct Testimony of Jackson at 12.

A. No. As part of its projection, DP&L indicated that it has assumed that the Commission authorized its proposed rate increase in Case No. 15-1830-EL-AIR,[28] which means that DP&L has indicated that it assumed that its distribution rates are just and reasonable. Further, DP&L's transmission rates are cost-based and regulated by the Federal Energy Regulatory Commission. That can only leave a projected shortfall in generation-related revenue.

VI. RECONCILIATION RIDER

Q. Do you believe that the Commission should authorize the Reconciliation Rider ("RR")?

A. No, through the RR, DP&L seeks to recover "the difference between its OVEC [Ohio Valley Electric Corporation] expenses and the amounts that DP&L received from selling that generation into PJM's day-ahead markets, to the extent that those costs are not recovered through DP&L's Fuel Rider."[29] The RR would be charged to all distribution customers.[30] The Commission should reject this proposal because, similar to the DMR, it would allow DP&L to receive generation-related revenue that it cannot otherwise recover from competitive market. Indeed, it is structured specifically to ensure that the DP&L is able to collect the difference between the cost-based revenue

[28] Direct Testimony of Malinak at 5, fn. 4.

[29] Application at 5

[30] Direct Testimony of Nathan Parke at 7.

requirement that DP&L pays to OVEC and the revenues that DP&L's OVEC entitlement produces from the competitive market.

VII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes it does. However, I reserve the right to further supplement my testimony.

CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio e-filing system will electronically serve notice of the filing of this document on the parties referenced in the service list of the docket card who have electronically subscribed to this case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served upon the persons below via electronic mail this 21st day of November 2016.

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