***OCC EXHIBIT NO. \_\_\_\_\_\_***

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover of Certain Storm-Related Service Restoration Costs. In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority. | )))))))) | Case No. 12-3062-EL-RDRCase No. 12-3266-EL-AAM |

**TESTIMONY**

**OF**

**DANIEL J. DUANN, Ph.D.**

**IN OPPOSITION TO THE STIPULATION AND RECOMMENDATION**

**On Behalf of**

**The Office of the Ohio Consumers’ Counsel**

*10 West Broad Street, Suite 1800*

*Columbus, Ohio43215-3485*

***May 23, 2014***

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**LIST OF ATTACHMENTS**

Attachment DJD-A – PUCO Staff’s Audit Report

# I. INTRODUCTION

***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.***

***A1.*** My name is Daniel J. Duann. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio, 43215-3485. I am a Principal Regulatory Analyst with the Office of the Ohio Consumers’ Counsel (“OCC”).

***Q2. ARE YOU THE SAME DANIEL DUANN WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?***

***A2.*** Yes.

***Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?***

***A3.*** My testimony, in addition to other OCC witness testimony, explains the reasons why the Public Utilities Commission of Ohio (“PUCO”) should reject the Stipulation and Recommendation filed in this proceeding on May 1, 2014 (“Stipulation” or “Settlement”). The proposed settlement of 2008, 2011, and 2012 storm-related O&M costs will result in unjust and unreasonable charges collected from customers. The proposed Stipulation does not represent a fair and reasonable compromise, does not benefit the customers and public interest, and violates important regulatory principles and practices. The proposed Stipulation should not be approved.

# II. october 23, 2013 Entry

***Q4. THE PUCO ISSUED AN ENTRY IN THIS CASE ON OCTOBER 23, 2013. DID THAT ENTRY ADDRESS DP&L’S REQUEST TO COLLECT MONEY FROM CUSTOMERS FOR CAPITAL EXPENDITURES RELATED TO STORM RESTORATION EFFORTS?***

***A4.*** Yes. In the October 23, 2013 Entry the PUCO found “that DP&L’s request to recover capital expenditures from customers as a result of restoration efforts should be denied.”[[1]](#footnote-1)

***Q5. WHAT EFFECT DID THAT PUCO ENTRY HAVE ON THE TOTAL AMOUNT OF MONEY THAT DP&L SOUGHT TO COLLECT FROM CUSTOMERS FOR STORM RESTORATION EFFORTS?***

***A5.*** The PUCO Staff recommended a downward adjustment (exclusion) of $27,624,990, including carrying charges from DP&L’s request in this proceeding.[[2]](#footnote-2)

***Q6. DID THE OCTOBER 23, 2013 ENTRY MAKE ANY OTHER FINDING IN REGARD TO DP&L’S REQUEST TO COLLECT STORM COSTS FROM CUSTOMERS?***

***A6.*** Yes. The PUCO ordered its Staff to “conduct a full audit of the storm repair expenditures incurred in the years in which DP&L requests recovery before this case goes to hearing.”[[3]](#footnote-3)

# III. PUCO STAFF Audit REport

***Q7. WHAT WERE THE FINDINGS OF THE PUCO STAFF’S AUDIT REPORT REGARDING THE 2008 STORM EXPENSES?***

***A7.*** The PUCO Staff recommended that DP&L not be permitted to collect any of the 2008 storms costs from customers.[[4]](#footnote-4)

***Q8. WHAT WERE THE FINDINGS OF THE PUCO STAFF’S AUDIT REPORT REGARDING THE 2011 STORM EXPENSES?***

***A8.*** The PUCO Staff recommended that DP&L not be permitted to collect any of the 2011 storms costs from customers.[[5]](#footnote-5)

***Q9. WHAT WERE THE FINDINGS OF THE PUCO STAFF’S AUDIT REPORT REGARDING THE 2012 STORM EXPENSES?***

***A9.*** The PUCO Staff recommended adjustments to the $4,763,244[[6]](#footnote-6) that DP&L sought to collect from customers for the 2012 deferred storm O&M costs. After reductions for the 3-year average of storm costs and other costs items such as “Management Labor” and “Union straight time,” the PUCO Staff recommended that DP&L be permitted to collect $1,010,600[[7]](#footnote-7) plus associated carrying costs[[8]](#footnote-8) from customers.[[9]](#footnote-9)

# IV. THE PUCO’S THREE-PRONG TEST FOR EVALUATINg SETTLEMENTS

***Q10. WHY DO YOU RECOMMEND THAT THE PUCO REJECT THE FILED STIPULATION AND RECOMMENDATION IN THIS CASE?***

***A10.*** The PUCO relies upon a three-prong test when evaluating whether to approve a Stipulation. The proposed Stipulation fails this test.

***Q11.*** ***WHAT IS YOUR UNDERSTANDING OF THE THREE-PRONG TEST THAT THE PUCO USES TO EVALUATE SETTLEMENTS?***

***A11.*** It is my understanding that the PUCO applies a three-prong test when evaluating whether a settlement (the Stipulation and Recommendation) should be approved. The PUCO must analyze the Stipulation and decide the following:

1. Is the settlement a product of serious bargaining among capable, knowledgeable parties representing diverse interests?

2. Does the settlement, as a package, benefit customers and the public interest?

3. Does the settlement package violate any important regulatory principle or practice?

***Q12.*** ***DOES THE STIPULATION,*** ***AS A PACKAGE, BENEFIT CUSTOMERS AND THE PUBLIC INTEREST AS REQUIRED BY THE SECOND PRONG OF THE TEST?***

***A12.*** No. DP&L, the PUCO Staff, and Kroger have agreed that the Utility should collect $22.3 million for the 2008, 2011, and 2012 major storm restoration costs from DP&L’s customers. That amount—$22.3 million—will result in customers paying unjust and unreasonable charges. Customers do not receive any benefit from paying DP&L more money than it should collect for restoring electric service after a storm event. Furthermore, permitting the Utility to collect an unjust and unreasonable charge for storm restoration efforts is against the law and the public interest.

***Q13. WHY DO YOU CONSIDER THE COLLECTION OF $22.3 MILLION FROM CUSTOMERS FOR 2008, 2011, AND 2012 STORM RESTORATION EFFORTS TO BE UNJUST AND UNREASONABLE?***

***A13.*** DP&L should not be permitted to collect any storm costs for years 2008 and 2011 because of (1) the level of DP&L’s earnings in those years, and (2) the PUCO did not—and should not—authorize DP&L to defer any storm costs in 2011 and non-major storms in 2008. The PUCO should not approve a settlement that authorizes DP&L to collect any storm restoration costs for those two years.

Additionally, it is unreasonable and unjust for DP&L to be permitted to collect eighteen (18) times the amount of money recommended in the PUCO Staff’s Audit Report. As I discussed earlier, in its Audit Report, the PUCO Staff recommended that customers pay DP&L a total of $1 million ($1,010,600)[[10]](#footnote-10) plus associated carrying costs of approximately $249,342 for DP&L’s storm restoration efforts. Based on the PUCO Staff’s Audit Report, comments, and analysis, and OCC’s testimony, comments, and analysis, DP&L’s customers should pay no more than $1.26 million ($1,259,942) for the storm restoration events requested in DP&L’s Application.

A settlement that requires customers to pay approximately 18 times more money (18 x $1,259,942=$22,678,956) to have their electric restored than the findings identified in a full PUCO Audit does not benefit them. The settlement, that unjustly enriches DP&L, at the expense of its many struggling customers, is not in the public interest. It should be rejected.

***Q14. DOES THE PROPOSED STIPULATION VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE?***

***A14.*** Yes it does. The proposed Stipulation violates important regulatory principles and practices because it permits DP&L to collect 2008 and 2011 storm costs from its customers.

***Q15. WHY DO YOU MAINTAIN THAT THE PROPOSED STIPULATION WILL PERMIT DP&L TO COLLECT 2008 AND 2011 STORM COSTS FROM CUSTOMERS?***

***A15.*** DP&L requests to collect storm costs from its customers incurred in 3 years—2008, 2011, and 2012—in this proceeding. The proposed Stipulation is a “Black Box” settlement. This means that the Stipulating parties have reached agreement with regards to the dollar amount that DP&L will charge its customers for all three storm years (2008, 2011, and 2012).[[11]](#footnote-11) Absent any quantification of the amount of storm costs for the individual years at issue, there is no way to determine how much of the $22.3 million was assessed and will be collected from customers for each individual year. Nonetheless, DP&L seeks just over $4.7 million dollars (plus carrying costs) for year 2012. Black Box or not—authorizing DP&L to collect $22.3 million, as contemplated in the proposed Stipulation, is authorizing DP&L to collect some unknown level of funding from customers for 2008 and 2011 storm-related costs.

***Q16. WHAT 2008 STORM-RELATED COSTS DID THE PUCO AUTHORIZE DP&L TO DEFER?***

***A16****.* The PUCO authorized DP&L to defer only the incremental O&M expenses related to the September 14, 2008 wind storm (Hurricane Ike) and associated carrying costs. [[12]](#footnote-12) However, DP&L included in its application a multitude of non-Ike storm costs incurred in 2008 that the PUCO never authorized DP&L to defer. Specifically, DP&L sought PUCO approval in its Application to charge its customers $3,574,933 in O&M costs[[13]](#footnote-13) and additional carrying costs resulting from non-Ike storms in 2008. Those 2008 non-Ike storm costs should not be paid by customers because the PUCO never authorized the deferral of these non-Ike storm restoration expenses.

***Q17. DOES THE PUCO STAFF AGREE THAT CUSTOMERS SHOULD NOT PAY $3,574,933.87 FOR COSTS INCURRED IN 2008 FOR NON-MAJOR STORMS THAT DP&L INCLUDED IN ITS APPLICATION?***

***A17.*** Yes. The PUCO Staff recommended in its Audit Report that “an adjustment of $3,574,933.87 [be made] to remove the minor storm repair expenses” \*\*\* because “The Application to defer 2008 costs (Case No. 08-1332-EL-AAM) includes ‘other’ storms; however, per the Commission’s Finding and Order, only Hurricane Ike expenses were approved for deferral \*\*\*.”[[14]](#footnote-14) The PUCO Staff also noted that those costs should be removed because “the Company has stated that the cost of repairs from non-major storms is embedded in the Company’s O&M expenses recovered through base rates.”[[15]](#footnote-15)

***Q18. DID THE PUCO GRANT DP&L THE AUTHORITY TO DEFER THE 2011 MAJOR STORM-RELATED OPERATION AND MAINTENANCE COSTS THAT ARE INCLUDED IN THE APPLICATION?***

***A18.*** No. DP&L has not received PUCO approval to defer any 2011 major storm costs. And DP&L should not receive approval to defer any 2011 major storm costs because DP&L did not allege, nor can it demonstrate a financial need for this 2011 deferral.[[16]](#footnote-16) Moreover, DP&L’s deferral request was not timely. DP&L waited 23 months after the first 2011 major storm to file the request for deferral on December 21, 2012.[[17]](#footnote-17)

***Q19. WHEN DID DP&L FILE ITS APPLICATION REQUESTING AUTHORITY TO DEFER THE 2011 STORM-RELATED EXPENSES?***

***A19.*** DP&L filed its Application for the authority to defer 2011 storm related costs on December 21, 2012. DP&L waited nearly fifteen months after the previous major storm event in 2011 (September 3, 2011) and nearly 23 months after the first major storm in 2011 (January 31, 2011) to seek authority to defer the 2011 storm-related costs.[[18]](#footnote-18) This delay is significant considering DP&L filed its Application to defer 2008 storm-related expenses 103 days after the Hurricane Ike wind storm, and its Application to defer 2012 expenses 42 days after the 2012 storm-related expenses were incurred. Actually, DP&L filed its Application to defer the 2012 storm-related costs and received the approval for the 2012 deferral before it filed its Application to defer the 2011 storm-related costs.[[19]](#footnote-19)

DP&L’s request for deferral of 2011 storm-related costs is particularly troublesome as a matter of public utility regulation because these 2011 costs were fully expensed and reflected in DP&L’s 2011 financial statements. Permitting DP&L to collect 2011 storm costs violates regulatory practice and principles, which result in unjust and unreasonable charges to customers and provides a windfall to DP&L.[[20]](#footnote-20) If the Stipulation is approved, the windfall would be paid by DP&L’s customers, who are already paying one of the highest electric rates in Ohio at this time.[[21]](#footnote-21)

***Q20. DOES THE PUCO STAFF AGREE THAT CUSTOMERS SHOULD NOT PAY $10,035,297 FOR COSTS INCURRED IN 2011 FOR STORMS THAT DP&L INCLUDED IN ITS APPLICATION?***

***A20.*** Yes. The PUCO Staff indicated, in Comments filed in this case, that the 2011 deferral request was not timely filed and the 2011 financial statements of DP&L were already completed and filed before the filing of the request for deferral.[[22]](#footnote-22) The PUCO Staff indicated that deferring 2011 storm-related expenses is not appropriate and is not recommended for collection.[[23]](#footnote-23) The PUCO Staff reiterated the same position, in its Audit Report filed on January 3, 2014, that the 2008 and 2011 expenses should not be recovered (i.e., the expenses should not be collected from customers).[[24]](#footnote-24)

***Q21. HAVE YOU CALCULATED THE RETURN ON EQUITY OF DP&L AND OTHER OHIO ELECTRIC DISTRIBUTION UTILITIES FOR THE PERIOD OF 2004 TO 2011?***

***A21.*** Yes. I have used the data included in the Annual Report to the PUCO (or FERC Form 1) filed by all major Ohio EDUs to calculate their respective annual return on equity (“ROE”) during this particular time period. The results are summarized in Table 1.

**Table 1: Return on Equity of Major Ohio Electric Distribution Utilities (2004 – 2011)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **UTILITIES** | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** | **2005** | **2004** |
|  |  |  |  |  |  |  |  |  |
| **CSP** |  | 16.18% | 20.83% | 19.63% | 23.19% | 18.19% | 14.57% | 15.62% |
| **OP** |  | 9.76% | 10.82% | 9.78% | 12.46% | 12.07% | 15.12% | 14.25% |
| **Duke** |  | -7.76% | -6.79% | 4.35% | 4.08% | 4.09% | 15.26% | 13.39% |
| **CEI** |  | 5.80% | -0.86% | 18.39% | 18.68% | 17.95% | 11.89% | 12.64% |
| **Ohio Edison** |  | 16.24% | 10.53% | 14.75% | 11.11% | 9.38% | 12.47% | 13.41% |
| **Toledo Edison** |  | 8.45% | 4.95% | 15.52% | 18.87% | 14.10% | 7.91% | 9.60% |
| \*: Merged with OP at the end of 2011. |  |  |  |  |
| \*\*: ROE of the merged OP |  |  |  |  |  |

***Q22. WHAT WAS DP&L’S RETURN ON EQUITY FOR 2008?***

***A22.*** In 2008, DP&L had a net income of $285.8 million, a preferred dividend of $0.9 million, and average shareholder equity of $1,422.1 million, yielding a 20.04% return on equity.

***Q23. IF DP&L HAD EXPENSED ITS 2008 STORM-RELATED COSTS IN ITS NORMAL COURSE OF BUSINESS, THEN WHAT WOULD BE THE IMPACT ON THE UTILITY’S RETURN ON EQUITY?***

***A23.*** The re-calculated return on equity of 2008 would be slightly lower than the ROE of 20.04% reported in DP&L’s financial statement. Based on the DP&L, Inc. 2008 Annual Report, the Company deferred approximately $13 million of incremental O&M costs associated with its storm restoration effort in 2008.[[25]](#footnote-25)Assuming that the amounts presented by DP&L in Schedule C-1 of its Application are reasonable and accurate, the total 2008 Incremental Storm O&M costs were approximately $14.9 million ($14,896,538).[[26]](#footnote-26) If the $14.9 million amount had been treated as expenses in 2008, I estimate that DP&L’s 2008 net income would have been reduced to $270.9 million, yielding an 18.99% return on equity, assuming the amounts of income tax expenses and average shareholder’s equity do not change as a result of added expenses.[[27]](#footnote-27) If only the 2008 Hurricane Ike incremental O&M costs exceeding the three-year average service restoration O&M expense that was deferred (as authorized by the PUCO) had been treated as expenses in 2008, the 2008 O&M expenses (without deferral) would be increased

approximately $11.3 million ($11,321,604 = $13,661,050 - $2,339,446).[[28]](#footnote-28) I estimate that the 2008 net income would then have been reduced to $274.5 million yielding a 19.24% return on equity, assuming once again the level of income tax expenses and average shareholder’s equity do not change.

***Q24. GIVEN THAT, ABSENT THE DEFERRALS, DP&L WOULD HAVE HAD A 2008 ADJUSTED RETURN ON EQUITY OF 18.99% OR 19.24%, SHOULD THE PUCO APPROVE THE PROPOSED STIPULATION THAT ALLOWS DP&L TO CHARGE CUSTOMERS FOR 2008 OPERATION AND MAINTENANCE EXPENSES RELATED TO STORMS?***

***A24.*** No. Approving the proposed Stipulation, which permits DP&L to charge customers for O&M expenses associated with the 2008 storms, would not benefit customers and it would violate important regulatory principles.

***Q25. WHY DOES THE PROPOSED STIPULATION, WHICH GRANTS DP&L THE ABILITY TO CHARGE CUSTOMERS FOR 2008 STORM-RELATED OPERATION AND MAINTENANCE EXPENSES, NOT BENEFIT CUSTOMERS?***

***A25.*** Approving the proposed Stipulation would not benefit customers because, as shown in Table 1, DP&L’s per-book ROE of 20.04% in 2008 was the highest among Ohio’s seven major electric utilities. Even if the deferred storm-related costs were fully expensed (instead of deferred), DP&L’s re-calculated earned ROE of 18.99% in 2008 was higher than its authorized ROE (12.06% -13.19%) approved by the PUCO in DP&L’s last rate case (Case No. 91-414-EL-AIR).[[29]](#footnote-29) Additionally, DP&L’s 18.99% ROE is considerably higher than the 11.30% ROE that was approved by the PUCO in DP&L’s 2008 ESP.[[30]](#footnote-30) Such a high ROE (18.99%) indicates that in 2008 DP&L’s revenues from the rates it collected from its customers more than covered all the O&M costs it incurred (including all storm-related O&M expenses incurred in 2008) and at the same time the company earned an extremely high return on its invested capital (i.e., ROE). Because DP&L has more than fully recovered its total costs (which include all storm-related O&M expenses and a very high return on invested capital) of providing electric service in 2008, there is no financial need for DP&L to collect any deferred 2008 storm-related O&M expenses from its customers. To allow DP&L to charge for the 2008 storm costs that were incurred when the Utility was earning a particularly high ROE would harm DP&L’s customers.

***Q26. WHY DOES THE PROPOSED STIPULATION, WHICH GRANTS DP&L THE ABILITY TO CHARGE CUSTOMERS FOR THE 2008 STORM-RELATED OPERATION AND MAINTENANCE EXPENSES VIOLATE IMPORTANT REGULATORY PRINCIPLES?***

***A26.*** The PUCO authorized DP&L to defer only the incremental O&M expenses related to the September 14, 2008 wind storm (Hurricane Ike) and associated carrying costs.[[31]](#footnote-31) However, DP&L included in its application a multitude of non-major storm costs incurred in 2008 that the PUCO never authorized DP&L to defer. Specifically, DP&L sought PUCO approval in its Application to charge its customers $3,574,933.87 in O&M costs and additional carrying costs resulting from other storms (non-major storms) in 2008.[[32]](#footnote-32) Those 2008 non major storm costs should not be paid twice by customers. Including these additional unwarranted charges in the settlement violates regulatory practice and principles, including the prohibition against double-recovery.

Furthermore, any additional collection of the deferred 2008 Ike-storm-related expenses from customers (included in the settlement) amounts to an unreasonable and unjust increase in rates. The imposition and collection of unjust and unreasonable rates by a regulated electric utility, such as DP&L, violates important regulatory principles of the state of Ohio; specifically, the availability of reasonably priced retail electric service[[33]](#footnote-33) and the protection of at-risk populations.[[34]](#footnote-34) The Stipulation should be rejected for these reasons.

***Q27. WHAT WAS DP&L’S RETURN ON EQUITY FOR 2011?***

***A27.*** In 2011, DP&L had a net income of $193.2 million, a preferred dividend of $0.9 million, and average shareholder equity of $1,368.7 million, yielding a 14.05% return on equity.

***Q28. HAS DP&L ALREADY EXPENSED ALL THE 2011 STORM-RELATED EXPENSES IN ITS NORMAL COURSE OF BUSINESS?***

***A28.*** Yes. When DP&L finalized its financial statements, these 2011 storm-related expenses were written off and reflected in the company’s net income and return on equity as reported in the Utility’s 2011 financial statements. I have confirmed this by reviewing the 2011 FERC Form 1 filed by DP&L. During my review of the 2011 FERC Form 1, I did not find any record of the deferral of the 2011 storm-related costs. Because DP&L has not yet received PUCO approval to defer any of its 2011 storm-related expenses, it is inappropriate for DP&L to seek collection of these subsequently “deferred” expenses (in 2012) without a demonstration by the company supporting a legitimate rationale for the accounting treatment undertaken and PUCO authorization.

***Q29. WHY SHOULD 2011 STORM-RELATED OPERATION AND MAINTENANCE COSTS NOT BE COLLECTED FROM CUSTOMERS?***

***A29.*** As discussed earlier, DP&L has not been granted authority to defer 2011 major-storm related incremental operations and maintenance (“O&M”) costs. And its request in this case is not timely. The settlement should be rejected because it authorizes DP&L to collect 2011 storm expenses from customers when it earned a ROE of 14.05% in 2011. As shown in Table 1, DP&L’s 14.05% ROE was one of the highest among major Ohio electric utilities in 2011. It is also higher than the PUCO-approved ROEs for DP&L in prior rate cases (approving an ROE between 12.06% – 13.19%) and in the 2008 ESP (approving an ROE of 11.30%).

This high ROE (14.05%) clearly indicates that, in 2011, DP&L’s revenues collected from its customers more than covered all O&M costs (including all storm-related O&M expenses) and at the same time earned a very high return on its invested capital. Because DP&L has fully recovered its costs (which include all storm-related O&M expenses and a very high return on invested capital) in 2011, there is no financial need for DP&L to collect any storm-related O&M expenses from 2011.

Furthermore, given the ROE earned by DP&L in 2011, any additional collection of revenues from its customers (as a result of the Stipulation) amounts to an unreasonable and unjust increase in rates. The imposition and collection of these unreasonable and unjust rates not only fails to benefit consumers, but also runs contrary to the long standing electric service policies and regulatory principles of the state of Ohio.

***Q30. WHAT AUTHORITY DOES DP&L RELY ON TO SEEK COLLECTION OF STORM COSTS FROM CUSTOMERS?***

***A30.*** Based on my review of the Application, I conclude that DP&L relies on the Stipulation approved by the PUCO on June 24, 2009, in PUCO Case No. 08-1094-EL-SSO.[[35]](#footnote-35) The June 24, 2009 Opinion and Order approved DP&L’s first Electric Security Plan (“ESP”).

***Q31. WHEN DID THAT ELECTRIC SECURITY PLAN END?***

***A31.*** That ESP was extended and ended on December 31, 2013.

***Q32. DOES DP&L’S CURRENT ELECTRIC SECURITY PLAN (EFFECTIVE JANUARY 1, 2014) PROVIDE FOR A STORM COST COLLECTION MECHANISM?***

***A32.*** No.

***Q33. ARE YOU AWARE OF ANY PUCO ORDER THAT GRANTS DP&L THE AUTHORITY TO COLLECT STORM COSTS FROM CUSTOMERS THROUGH A RIDER?***

***A33.*** No. I am not aware any PUCO order that grants DP&L the authority to collect the 2008, 2011, and 2012 storm-related O&M costs identified by DP&L in its Application. The prior orders authorizing DP&L to defer certain 2008 and 2012 storm-related costs all clearly states that “The determination of the reasonableness of the deferred amounts and the recovery thereof, if any, will be examined and addressed in a future proceeding before the Commission.”[[36]](#footnote-36)

It is also my understanding that the only way thatDP&L may seek to adjust its distribution rates to collect storm damage expenses would be to file an application under R.C. 4909.18 or file another electric security plan application.

***Q34. WHEN DOES THE PROPOSED STIPULATION IN THIS CASE STATE THAT THE STORM CHARGES WILL BE COLLECTED FROM CUSTOMERS?***

***A34.*** The proposed Stipulation indicates that DP&L will begin collecting the charge from customers “the first billing cycle of the first calendar month following Commission approval of this Stipulation.”[[37]](#footnote-37)

***Q35. DO YOU HAVE ANY CONCERNS REGARDING WHEN THE COLLECTION OF THE STORM CHARGE FROM CUSTOMERS WILL BEGIN?***

***A35.*** Yes. Collection of the storm costs from customers via a rider mechanism prior to receiving PUCO approval in a rate case, a case for a change in existing tariff, or an ESP proceeding violates regulatory practice and principles.

# V. CONCLUSION

***Q36. DOES THIS CONCLUDE YOUR TESTIMONY?***

***A36.*** Yes. However, I reserve the right to supplement my testimony in the event that DP&L, the PUCO Staff, or other parties submit additional testimonies, or if new information or data in connection with this proceeding becomes available.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the *Testimony of Daniel J. Duann, Ph.D.* was served on the persons stated below via electronic transmission this 23rd day of May 2014.

 */s/ Melissa R. Yost*

 Melissa R. Yost

 Deputy Consumers’ Counsel

**SERVICE LIST**

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1. October 23, 2013 Entry at page 8. [↑](#footnote-ref-1)
2. *See,* *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Audit Report Submitted on Behalf of the Staff of The Public Utilities Commission of Ohio at 5 (January 3, 2014). Hereafter, it is referred as the PUCO Staff’s Audit Report, and it is attached as “Attachment DJD-A.” [↑](#footnote-ref-2)
3. October 23, 2013 Entry at page 8. [↑](#footnote-ref-3)
4. PUCO Staff’s Audit Report at 3. [↑](#footnote-ref-4)
5. *Id*. [↑](#footnote-ref-5)
6. DP&L Application Schedule C-1, Line 9. [↑](#footnote-ref-6)
7. $1,010,600 = $4,763,244 - $3,482,366 - $144,611 - $104,925 - $4,301 -$16,441. [↑](#footnote-ref-7)
8. I have calculated the approximate carrying costs on the $1,010,600 allowed O&M collection to be $249,342 assuming the carrying cost is proportional to the money requested by DP&L. Specifically, DP&L proposed a total storm O&M costs of $29,695,078, and an associated carrying cost of $7,326,576 for a total O&M request of $37,021,654. [↑](#footnote-ref-8)
9. PUCO Staff’s Audit Report at 4. [↑](#footnote-ref-9)
10. PUCO Staff’s Audit Report at 4. ($1,010,600 = $4,763,244 - $3,482,366 - $144,611 - $104,925 - $4,301 -$16,441.) [↑](#footnote-ref-10)
11. *See,* Paragraph II, 1 of Stipulation and Recommendation (May 1, 2014). [↑](#footnote-ref-11)
12. *See,* *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 08-1332-EL-AAM, Finding and Order, (January 14, 2009) at paragraphs 3 and 4. [↑](#footnote-ref-12)
13. *See,* Application at Schedule C-1, page 1 of 1 at line 2. [↑](#footnote-ref-13)
14. PUCO Staff’s Audit Report at 6-7. [↑](#footnote-ref-14)
15. *Id.* at 7. [↑](#footnote-ref-15)
16. *See,* Direct Testimony of Dona R. Seger-Lawson at 5. [↑](#footnote-ref-16)
17. *Id.* [↑](#footnote-ref-17)
18. *See,* Direct Testimony of Bryce W. Nickel at 3. [↑](#footnote-ref-18)
19. The request for deferral of 2012 storm-related costs was filed on August 10, 2012 and amended on October 19, 2012. *See,* Application at 5. The deferral of 2012 storm-related costs was approved by the PUCO on December 19, 2012. [↑](#footnote-ref-19)
20. *See,* Application at Schedule C-1, page 1 of 1 at line 7. [↑](#footnote-ref-20)
21. A typical DP&L residential customer using 750 KWH of electricity per month pays $107.84, which is the second highest among the seven major utilities. Also, that monthly amount is higher than the state average of $102.64, and the lowest at $90.45. See Ohio Utility Rate Survey, A report by the Staff of the Public Utilities Commission of Ohio (January 14, 2014). [↑](#footnote-ref-21)
22. *See,* *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Comments Filed on Behalf of the Staff of The Public Utilities Commission of Ohio at 6 (June 17, 2013). [↑](#footnote-ref-22)
23. *Id.* [↑](#footnote-ref-23)
24. PUCO Staff’s Audit Report at 3. [↑](#footnote-ref-24)
25. *See,* DPL, Inc.2008 Annual Report at 16 -17. [↑](#footnote-ref-25)
26. *See,* Application at Schedule C-1, page 1 of 1 at line 5. [↑](#footnote-ref-26)
27. The increase in operating expenses, as a result of including the deferred storm-related O&M expenses, will likely reduce the amount of income tax expenses and the amount of average shareholder’s equity, which will increase the ROE slightly above 18.99%. [↑](#footnote-ref-27)
28. *See,* Application at Schedule C-1, page 1 of 1 at lines 1 and 4. It should be noted that the PUCO Staff had calculated a different three-year baseline storm O&M costs in another proceeding (PUCO Case No. 12-426-EL-SSO) as cited in Comments By The Office of the Ohio Consumers’ Counsel at 6 and 9 (June 17, 2013). Use of this baseline would reduce the amount of incremental O&M storm cost for deferral and would result in a higher 2008 net income and ROE calculated here. [↑](#footnote-ref-28)
29. PUCO Case No. 12-3062-EL-RDR, Comments Filed on Behalf of the Staff of the Public Utilities Commission of Ohio at 4 (June 17, 2013). [↑](#footnote-ref-29)
30. *See,* Direct Testimony of Gregory S. Campbell at 8 (Dec. 21, 2012). [↑](#footnote-ref-30)
31. *See, In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 08-1332-EL-AAM, Finding and Order, (January 14, 2009) at paragraphs 3 and 4. [↑](#footnote-ref-31)
32. *See,* Application at Schedule C-1, page 1 of 1 at line 2. [↑](#footnote-ref-32)
33. R.C. 4928.02(A). [↑](#footnote-ref-33)
34. R.C. 4928.02(L). [↑](#footnote-ref-34)
35. *See,* Application at 1. [↑](#footnote-ref-35)
36. *See,* for example, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 12-426-EL-SSO, et al., Finding and Order (January 14, 2009) at 2. [↑](#footnote-ref-36)
37. *See* Paragraph II, 4 of Stipulation and Recommendation (May 1, 2014). [↑](#footnote-ref-37)