BEFORE

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| In the Matter of the Application of The  Dayton Power and Light Company for an  Increase in its Electric Distribution Rates  In the Matter of the Application of The  Dayton Power and Light Company for  Accounting Authority  In the Matter of the Application of Dayton  Power and Light Company for Approval of  Revised Tariffs | )  )  )  )  )  )  )  ) )  )  ) | Case No. 15-1830-EL-AIR  Case No. 15-1831-EL-AAM  Case No. 15-1832-EL-UNC |

**OBJECTIONS TO STAFF REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES OF INTERSTATE GAS SUPPLY, INC.**

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**TABLE OF CONTENTS**

**PAGE**

1. introduction 3
2. OBJECTIONS TO THE STAFF REPORT 4
   1. The Staff Report fails to recommend that DP&L unbundle from distribution rates all costs related to the provision of the standard service offer. The Staff Report further incorrectly proposes an avoided cost analysis to unbundle distribution rates . 4
   2. **DP&L’s historical usage fees are excessive and not supported by the application to increase rates or the Staff Report……………………………………………………………………………….…. 9**
   3. **DP&L’s credit and collateral requirements are not transparent or reasonable…………………………………………….........9**
   4. **the staff report proposes unsubstantiated and unreasonable customer charges and demand charge calculations that will discourage distributed energy resource deployment…………………………………………………………… 11**
3. summary of major issues 13

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**OBJECTIONS TO STAFF REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES OF INTERSTATE GAS SUPPLY, INC.**

1. **INTRODUCTION**

On October 30, 2015, the Dayton Power and Light Company (“DP&L”) filed an application to increase in distribution rates, for tariff approval, and to change its accounting methods (“Application”). The Staff Report of Investigation (“Staff Report”) was filed with the Public Utilities Commission of Ohio ("Commission") on March 12, 2018, setting forth the Commission Staff’s ("Staff') findings regarding the Application.

Pursuant to R.C. 4909.19, Rule 4901-1-28, Ohio Administrative Code ("O.A.C"), and the Attorney Examiner's Entry dated March 14, 2018, Interstate Gas Supply, Inc. (“IGS”) hereby files its Objections to the Staff Report and Summary of Major Issues in the above-captioned matters. IGS reserves the right to contest through cross-examination, testimony, or exhibits any newly raised issues, issues raised by any other party, or any position set forth in the Staff Report that changes prior to the close of the record.

1. **OBJECTIONS TO THE STAFF REPORT**

IGS objects to the following specific recommendations in the Staff Report:

**RATES AND TARIFFS AND COST OF SERVICE STUDY**

1. **The Staff Report fails to recommend that DP&L unbundle from distribution rates all costs related to the provision of the standard service offer. The Staff Report further incorrectly proposes an avoided cost analysis to unbundle distribution rates.**

IGS objects to the Staff Report’s failure to identify and recommend that DP&L allocate to the default service/standard service offer (“SSO”) all costs contained in distribution rates that may be necessary to provide that service.[[1]](#footnote-1) IGS further objects to the Staff Report’s recommendation to unbundle distribution rates using a short-term avoided cost analysis.

The Staff Report acknowledges that, in accordance with the Stipulation and Recommendation approved in Case Nos. 16-395-EL-SSO, *et al*., “[i]n DP&L’s filed distribution rate case (Case No. 15-1830-EL-AIR), there will be an evaluation of costs contained in distribution rates that may be necessary to provide standard service offer service.”[[2]](#footnote-2) But the Staff Report then states that the DP&L was unable to identify these costs as such a task would be cost prohibitive:

The Company at this time is unable to quantify different costs between shopping and non-shopping customers and expressed that it would be prohibitively expensive to track costs for the functions of administering the competitive retail market or providing a standard service offer. In fact, the Company stated in its response to a Staff data request that all of the costs that DP&L incurs to provide particular services to or on behalf of shopping and non-shopping customers are appropriately assigned to the distribution function of DP&L because a distribution utility is required by law to offer a standard service offer and has obligations with regard to administering aspects of the competitive market.[[3]](#footnote-3)

DP&L’s difficulties aside, the Staff Report independently identifies one category of costs to allocate to default service, stating: “Nevertheless, Staff has identified one potential area, the cost associated with Regulatory Expense (FERC 928), which contains the PUCO/OCC assessment expense. Staff recommends that the SSO generation revenue percentage of the PUCO/OCC assessment expense be recovered through an appropriate

bypassable rider.”[[4]](#footnote-4)

While IGS appreciates the Staff Report’s identification of *some costs* associated with default service proposed for recovery in distribution rates, IGS objects to the Staff Report’s process for evaluation as well as the amount of costs identified. Whether DP&L has difficulty identifying costs in distribution rates necessary to support default service is irrelevant. The purpose of a Staff Report is to perform an independent evaluation of the utility’s proposal to increase its rates—it is not intended to rely on the exclusive analysis of the utility. If that were the case, there would simply be no statutory obligation or benefit of a staff report. Accordingly, the Staff Report should have independently evaluated each category of costs and derived a methodology to identify and allocate costs associated with default service to that service. As the Staff Report acknowledges, the relationship between default service revenue and total utility revenue may provide a basis for that cost allocation. The quantity of customers taking default service relative to total customers may also provide a methodology to allocate these costs.

IGS objects to the Staff Report’s acceptance of DP&L’s cost of service study. The Staff Report failed to properly functionalize, classify, or allocate costs associated with the provision of the SSO.

The specific details supporting these objections are discussed in detail below.

Many of the costs necessary to support the default service are proposed for recovery in DP&L’s allowance for operation expense (operation and maintenance expense or “O&M”). These costs are identified and supported in the C-Schedules attached to the Application. The Staff Report provides an analysis of the costs contained on these schedules. As mentioned above, the Staff Report identifies only one small category of costs that relate to the provision of default service. The operation and maintenance expense categories that the Staff Report failed to analyze and allocate to the default service include:

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

(2) Outside and inside legal, regulatory, and compliance personnel to comply with the regulatory rule requirements for the SSO;[[5]](#footnote-5)

(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) All uncollectible expense, to the extent that a purchase of receivable program contains a discount rate;[[6]](#footnote-6)

(10) Cash Working Capital.[[7]](#footnote-7)

These categories of cost are mainly identified in the following FERC Accounts (903-905; 908-910; 912; 920-935; 408).

Moreover, the Staff Report further failed to analyze and allocate to the default service costs embedded in rate base that are necessary to support default service. These costs are proposed in the B Schedules. The Staff Report failed to analyze or identify costs on these schedules that relate to the provision of SSO service and should therefore be allocated to that service. Such costs include rate base related to categories of costs identified above, as well DP&L’s headquarters (MacGregor Park) in Dayton.

Each of the aforementioned expenses and investments are necessary to support the SSO. Moreover, each of these services reflect costs that CRES suppliers must incur to support their own rates. Indeed, in addition to these internal costs, CRES providers often must pay DP&L additional fees, for example, switching fees, billing fees, and interval data fees. In the test year alone, CRES suppliers and their customers paid DP&L $247,120 in switching fees.[[8]](#footnote-8) These fees likely exceeded $1 million since 2012.[[9]](#footnote-9) Yet, customers are not required to pay switching fees to return to the SSO.[[10]](#footnote-10) Moreover, DP&L charges CRES providers $150 for each interval data request. During the test year, CRES providers paid DP&L $339,300 in interval data fees.[[11]](#footnote-11) The historical usage fees amounted to over $500,000 in 2016 alone, and approximately $2.7 million since 2012.[[12]](#footnote-12) Each of the fees discussed above are separate and apart from internal costs that CRES providers must incur to make a competitive product available.

Failure to unbundle and allocate SSO-related costs to that service would violate good ratemaking principles, Ohio law, and State Policy against anticompetitive subsidies and in favor of unbundled and comparable rates.

1. **DP&L’s historical usage fees are excessive and not supported by the application to increase rates or the Staff Report**

DP&L's Alternate Generation Supplier Coordination Tariff's Schedule of Fees and

Charges, page 30 (the “Supplier Tariff”) identifies a charge of $150 for 12 months of interval hourly load data, per account. IGS objects to the Staff Report’s failure to discuss or identify how either of these charges were calculated or whether such charges are reasonable. As discussed above, these charges and other supplier fees resulted nearly $1 million per year and several million since 2012. These charges should be reduced or eliminated.

1. **DP&L’s credit and collateral requirements are not transparent or reasonable**

IGS objects to the Staff Report’s failure to propose changes to the credit and collateral requirements contained in DP&L’s Supplier Tariff. DP&L’s electric security plan case modified to some extent matters related to the Supplier Tariff. But the Stipulation and Opinion and Order in that proceeding expressly permitted parties to raise additional matters related to the Supplier Tariff in this proceeding: “[f]or avoidance of doubt, resolution of DP&L's current distribution rate case in Case No. 15-1830-EL-AIR may result in allocation of costs to the SSO rate and therefore, IGS and RESA are not prohibited from advocating for unbundling or changes to SSO rate *or supplier tariffs in that proceeding or any other distribution rate case*.”[[13]](#footnote-13)

Since the authorization of the Stipulation and Recommendation approving DP&L’s electric security plan, DP&L has begun applying these requirements in its Supplier Tariff inconsistent with its historical practice and to the detriment of CRES providers that are not publicly traded. Under these requirements—if DP&L requires a CRES provider to post collateral, which it often does not if the CRES provider is associated with a publicly traded entity—DP&L multiplies 30 days of the supplier’s estimated summer usage by the highest monthly average megawatt-hour price from the prior summer’s PJM Day Ahead market and multiplies by 30 days of the supplier’s capacity obligation by the final Dayton zonal capacity megawatt-day price for the upcoming delivery year. The Supplier Tariff states that “[t]he amount of the security required must be and remain commensurate with the financial risks placed on the Company by that supplier, *including recognition of that supplier’s performance*.”[[14]](#footnote-14) But DP&L does not take the latter factor or the general risk profile of a CRES provider into account when establishing collateral levels. Therefore, these requirements have been arbitrarily and inconsistently applied to the detriment of privately held CRES providers.

DP&L’s current collateral requirements are by far the most burdensome in the state of Ohio. DP&L’s collateral requirements increase the cost of doing business in its service territory when less restrictive means could be utilized to safeguard against the risk to DP&L.

Further, after establishing collateral levels for individual CRES providers, DP&L is utilizing an unreasonable process by which the CRES must provide collateral. Specifically, DP&L utilizes a non-public bond form that contains terms DP&L unilaterally modifies from time-to-time as it sees fit. For example, DP&L modified its most recent bond form to require payment from a source of collateral upon 30 days demand to 5 days demand. DP&L appears to have subsequently modified the form again to reflect 2 days. DP&L imposed this requirement without Commission approval or authorization.   
Accordingly, IGS further objects to the Staff Report’s failure to recommend that DP&L specifically obtain Commission approval of its bond form, and that the bond form include the requirement that payment from a collateral source be provided upon 30-days demand.

**RATE DESIGN**

1. **The Staff Report proposes unsubstantiated and unreasonable customer charges and demand charge calculations that will discourage distributed energy resource deployment**

IGS objects to the Staff Report’s acceptance of DP&L’s proposed straight fixed variable rate design and increase to the residential customer charges as well as the increase to the primary/secondary customer charges.[[15]](#footnote-15) Under Staff’s proposed rate design, DP&L’s fixed residential customer charge will increase from $4.25 to $7.88—or eighty-five (85%) percent more than its current rate.[[16]](#footnote-16)  Staff acknowledges that it utilized a minimally compensatory approach when designing the increased residential customer charge.[[17]](#footnote-17) The proposed increase to the fixed residential charge will have unintended consequences for those residential customers deploying distribution energy resources and energy efficient products and services, and ultimately discourage investment.

Energy efficiency customers would also save eighty-five (85%) percent less for every kilowatt hour *not* consumed if Staff’s proposal is implemented.  Ultimately, the reduction in savings will deter residential customers from absorbing the up-front costs associated with deploying distributed energy resources and energy efficient products and services. Thus, the proposed increase to the customer charge works against the state policy to facilitate the adoption and deployment of distributed energy resources.

Although the Staff Report alleges that a certain level of distribution costs are fixed and should be allocated to a customer charge, the Staff gives no weight to positive impact that distributed energy resources may have on the distributed system—such as reducing line loss or avoiding the need for capital distribution investment by reducing load on a section of the distribution grid.

IGS objects to Staff Report’s acceptance of DP&L’s proposed methodology for determining customer demand based upon the non-coincident peak of an individual customer.[[18]](#footnote-18) The Staff Report states “[t]he size of a distribution system does not depend on the highest coincident-peak demand on a utility’s system, but rather its size depends on the non-coincident peak of the customers it serves.”[[19]](#footnote-19) This conclusion is unsubstantiated and contradictory to principles of cost causation. While the system-wide coincident peak may not dictate the size of the distribution system, nor does an individual customer’s non-coincident peak if that peak does not coincide with the localized peak on a distribution circuit or distribution feeder. A more localized measurement of customer usage at times when the local distribution system is operating near capacity or at a localized peak on the distribution circuit is a better reflection of the customer’s contribution to the cost of the distribution system. The manner in which the Staff Report proposes to calculate demand charges may discourage customers from deploying distributed energy resources that shift customer peak demand away from hours when the localized distribution system is under stress.

To that end, DP&L should calculate a customer’s demand based upon their usage at the time of the peak on that customer’s localized distribution circuit or feeder. This will ensure that distribution rates are more closely aligned with principles of cost causation.

1. **Summary of Major Issues**

In summary, the major issues in this case will be:

1. The appropriate amount of costs to unbundle from distribution rates and allocate to default service, as well as the appropriate credit to shopping customers;
2. The calculation of historical usage fees and supplier fees;
3. The calculation and application of DP&L’s credit and collateral requirements.
4. The calculation and level of customer chargers and demand charges.

Respectfully submitted,

*/s/ Joseph Oliker\_\_\_\_\_\_\_\_\_*

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**CERTIFICATE OF SERVICE**

I certify that this *Objections to Staff Report of Investigation and Summary of Major Issues of* *Interstate Gas Supply, Inc.* was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on this 11h day of April 2018. The PUCO’s e-filing system will electronically serve notice of the filing of this document on the following parties:

*/s/ Joseph Oliker*

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1. Staff Report at 24. [↑](#footnote-ref-1)
2. Staff Report at 28.

   [↑](#footnote-ref-2)
3. *Id.* at 28. [↑](#footnote-ref-3)
4. *Id.* [↑](#footnote-ref-4)
5. The Staff Report recommends that DP&L not be permitted to collect costs associated with litigating its electric security plan case. Staff Report at 15. The Staff Report concludes that these expenses are “inappropriate for ratemaking purposes.” *Id.* Staff also proposed a 5-year amortization of rate case expense instead of 2-years as proposed by DP&L. The impact of Staff’s recommendation resulted in a reduction on C-3.16 from $4,917,606 to $417,765. The Staff Report incorrectly recommended that DP&L not collect these expenses; thus, IGS objects to this proposed reduction to allowable O&M expense. Rather, the Staff Report should have proposed an allocation methodology to allocate these expenses between distribution and default service. Failure to appropriately allocate these costs to default service customers would require DP&L to use its distribution service revenues to subsidize litigation expenses associated with providing a competitive service (default service). [↑](#footnote-ref-5)
6. The Staff Report indicates that uncollectible expenses shall be recovered through a rider. But the adjustments recommended in the Staff Report do not in fact recommend that overhead associated with collections, software, etc., be recovered through the bypassable portion of the uncollectible rider. Indeed, the Staff Report recommended that $3,543,913 be adjusted in uncollectible expense. But DP&L’s actual uncollectible expense cost was $4,923,342. DP&L Response to IGS INT-3-4. [↑](#footnote-ref-6)
7. Although the Staff Report recommends that DP&L collect a Cash Working Capital expense related to its distribution rates, there is no recommendation that DP&L collect cash working capital cost to pay auction suppliers. By failing to allocate a cash working capital requirement to the SSO rate, DP&L thereby subsidizes this cost through revenue collected through distribution rates. [↑](#footnote-ref-7)
8. DP&L Response to IGS-INT-4-3. [↑](#footnote-ref-8)
9. *Id.* According to this discovery response, DP&L lacked data for 2013, 2014, and a portion of 2015, but in no year where complete information was available were fees less than $223,000. [↑](#footnote-ref-9)
10. The terms of this charge are set forth on Tariff Sheet Tariff Sheet D34.

    [↑](#footnote-ref-10)
11. DP&L Supplemental Response to IGS-INT-4-2. [↑](#footnote-ref-11)
12. DP&L Supplemental Response to IGS-INT-4-2. [↑](#footnote-ref-12)
13. *In the Matter of the Application of the Dayton Power and Light Company to Establish a Standard Service Offer in the Form of an Electric Security Plan*, Amended Stipulation and Recommendation at 38, fn 10 (Mar. 14, 2017) (emphasis added). [↑](#footnote-ref-13)
14. DP&L Alternative Generation Supplier Coordination Tariff, sheet G8, page 24 of 30 (emphasis added). [↑](#footnote-ref-14)
15. Staff Report at 36. [↑](#footnote-ref-15)
16. *Id.* [↑](#footnote-ref-16)
17. *Id.* [↑](#footnote-ref-17)
18. Staff Report at 38-43. [↑](#footnote-ref-18)
19. Staff Report at 36. [↑](#footnote-ref-19)