**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| In the Matter of the Application of the Dayton Power and Light Company to Increase its Rates for Electric Distribution.  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. 20-1651-EL-AIR  Case No. 20-1652-EL-AAM  Case No. 20-1653-EL-ATA |

**OBJECTIONS TO THE PUCO STAFF REPORT**

**BY**

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[Objection 16. The Staff Report erred by only relying on Value Line as a source for beta estimates to use in its CAPM without consideration of other sources as a check on the reasonableness of Value Line’s betas. The Staff’s beta estimates are abnormally high, are being heavily influenced by market volatility experienced in 2020 as a result of the anomalous event of the pandemic caused by COVID-19, and do not necessarily capture investor expectations. 11](#_Toc80777740)

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**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of the Dayton Power and Light Company to Increase its Rates for Electric Distribution.  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. 20-1651-EL-AIR  Case No. 20-1652-EL-AAM  Case No. 20-1653-EL-ATA |

**OBJECTIONS TO THE PUCO STAFF REPORT**

**BY**

**OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

# I. INTRODUCTION

In this base distribution rate case, Dayton Power and Light Company d/b/a AES Ohio (“DP&L”) seeks to charge its consumers an additional $120.8 million per year for base electric distribution service.[[1]](#footnote-2) The Public Utilities Commission of Ohio (“PUCO”) Staff recommends an increase to consumers of $61.1 million to $66.7 million.[[2]](#footnote-3) Each of these proposed increases would be on top of the $30 million annual increase to consumers less than three years ago.[[3]](#footnote-4)

But consumers should not pay a single cent more than they already do because DP&L agreed to a rate freeze with respect to its base distribution rates. Rather than approve any rate increase, the PUCO must enforce the rate freeze and dismiss this case, as explained in OCC’s motion to dismiss.[[4]](#footnote-5)

If the PUCO does not grant OCC’s motion to dismiss, it should nonetheless reject DP&L’s proposed $121 million increase and the PUCO Staff’s recommended $61.1 million to $66.7 million increase because each of these would result in unjust and unreasonable rates for consumers. Instead, the PUCO should adopt OCC’s consumer-protection recommendations, as set forth in the following objections and in more detail in OCC’s testimony.

# II. OBJECTIONS

## A. Rate Freeze

### Objection 1. To protect consumers, the Staff Report should have recommended enforcement of the distribution rate freeze (no rate increase) that DP&L agreed to as part of a settlement with OCC, the Staff, and others in its ESP 1 case because ESP 1 is currently in effect, and the settlement requires a base distribution rate freeze for the duration of ESP 1.

As part of a settlement agreement reached with OCC, the PUCO Staff, and others, DP&L agreed to freeze its base distribution rates to consumers for the duration of its first Electric Security Plan (“ESP 1”) [[5]](#footnote-6) DP&L’s ESP 1 is currently in effect because DP&L unilaterally chose to revert back to ESP 1 after the PUCO stopped charging DP&L consumers for DP&L’s so-called distribution modernization rider.[[6]](#footnote-7) The Staff Report should have recommended that the PUCO enforce this ESP I rate freeze for Dayton-area consumers, just as the PUCO has enforced the other provisions of the settlement reached in DP&L’s ESP I.

## B. Revenue Requirement

### Objection 2. As a result of OCC’s other objections below (including OCC’s proposed changes to rate base, operating income, and rate of return), the Staff Report’s recommended rate increase of $61,115,418 to $66,665,151 is too high for consumers and would result in consumers paying unjust and unreasonable rates under R.C. 4905.22, 4909.15, 4909.154, 4909.17, and 4909.18.

The Staff Report’s recommended rate increase of $61.1 to $66.7 million is too high for consumers and would result in unjust and unreasonable rates. Among other things, OCC objects below on the grounds that (i) capitalized incentives should not be included in rate base, (ii) $16.8 million in capitalized storm costs should not be included in rate base, (iii) $241,572 in dues and memberships should not be charged to consumers, (iv) the Staff Report unreasonably reduced test year operating income revenues by $5 million, (v) the Staff Report unreasonably failed to remove $952,488 in travel and entertainment costs that DP&L did not actually incur during the test year as a result of the coronavirus pandemic, (vi) test year vegetation management expenses should not be increased by $1.8 million compared to current base rates without justification, and (vii) consumers should not pay the PUCO Staff’s proposed rate of return in the range of 7.05% to 7.59% (midpoint 7.32%).

Each of these unjust and unreasonable positions taken in the Staff Report, if the PUCO were to adopt them, would unlawfully increase the rates that consumers pay. Instead, the PUCO should adopt OCC’s objections, which would result in a revenue requirement that is lower than the $61.4 to $66.7 million increase recommended in the Staff Report.

### Objection 3. The Staff Report failed to consider the adverse impact of its proposed $61,115,418 to $66,665,151 rate increase on residential consumers, including at-risk consumers who can face loss of electric service because of their inability to pay for unreasonable rates.

The magnitude of the proposed revenue increase and the resulting bill impacts are contributing to utility bills that may be unaffordable for consumers in many communities in the DP&L service territory. Even before the pandemic, Dayton-area consumers were suffering, facing some of the worst poverty in the state, with more than 32% of consumers in the City of Dayton living in poverty—more than twice the state average.[[7]](#footnote-8) Many more Ohioans in Montgomery County live just above the poverty line.[[8]](#footnote-9) And before the pandemic, more than 14% of Ohioans in Montgomery had inadequate access to food.[[9]](#footnote-10) Unfortunately, food insecurity affects children even more, with over 20% of Montgomery County children lacking adequate access to food.[[10]](#footnote-11)

These types of problems—and others—have only been made worse by the coronavirus pandemic and financial emergency. Unemployment reached 10% or more in the Dayton region during the pandemic, and although employment rates have improved since then, a recent report shows that Dayton’s unemployment rate is still higher than both the state and national average.[[11]](#footnote-12)

Residential consumers are still economically struggling due to horrific and prolonged global effects of the coronavirus pandemic. The pandemic continues. The cases related to the delta variant of the coronavirus are escalating. Just recently, Ohio recorded the highest number of daily infections since February.[[12]](#footnote-13) The increase proposed in the Staff Report does not address these important concerns for residential consumers.

Disconnections in DP&L’s service territory are also an indicator of unaffordable electric service. Due to the state of emergency declared in Ohio as a result of the coronavirus pandemic, DP&L was prohibited from disconnecting residential consumers from March 2020 through August 2020. But given the lack of any current suspension on disconnections, the proposed bill impact associated with this rate case, and other factors, DP&L’s disconnections of consumers are likely to increase.

In recommending a rate increase for consumers of greater than $61 million per year, the Staff Report failed to evaluate the impact that the large rate increase will have on all residential consumers (including at-risk consumers) and to recommend ways to mitigate such impacts on consumers.

## C. Rate Base

### Objection 4. The Staff Report erred by not recommending that capitalized incentive compensation be removed from Plant In Service, which will lead to higher rates charged to consumers.

The Staff Report recommends that “starting with the Commission’s Opinion and Order in this case and going forward, the Company exclude from base rates all capitalized earnings-based incentive compensation as shareholders and not ratepayers should fund earnings-based incentives.”[[13]](#footnote-14) The Staff is correct that consumers should not pay for DP&L’s employees’ incentive compensation, but the Staff Report should have gone further by actually removing such compensation that is currently booked in rate base.

Incentives compensation to employees are not necessary in the provision of electric service to consumers. Further, capitalizing employee incentive compensation increases Rate Base and this amount of “capitalized plant” is not used and useful. The PUCO should require DP&L to remove all capitalized employee incentive compensation from Rate Base and reduce the Revenue Requirement accordingly.

### Objection 5. The Staff Report erred by not making a plant in service adjustment to exclude $16.8 million in improper capitalized storm costs.

Since date certain in the last rate case (September 30, 2015), DP&L booked to plant in service $28.9 million in storm costs. OCC recommends an adjustment of $16.8 million to remove administrative and general overheads, operation and maintenance expenses, cash bonuses, meals, picnics and parties, travel, and office supplies that are either inappropriate for collection from consumer altogether (because they are not necessary to provide distribution service, were not prudently incurred, or are otherwise excessive) or inappropriate for inclusion in rate base (because they are operations and maintenance costs).

### Objection 6. The Staff Report erred by not recommending depreciation reserve adjustments based on OCC’s recommended storm cost and capitalized incentive adjustments.

If OCC objections 4 and 5 regarding capitalized incentives and storm costs are adopted, corresponding adjustments would need to be made to the depreciation reserve. OCC’s storm cost adjustment requires a reduction of $485,717 in the depreciation reserve. Depreciation reserve will need to be further adjusted once capitalized incentive compensation are identified and removed from plant in service. OCC is unable at this time to quantify the amount of capitalized incentive compensation because DP&L did not provide sufficient information in its Application and discovery responses.

## D. Operating Income

### Objection 7. The Staff Report erred by only recommending that $14,534 associated with dues and memberships be removed from test year expenses, when instead, at least $241,572 should be removed from test year O&M expenses.

The Staff Report states that “a portion of [DP&L’s] Edison Electric Institute (EEI) dues were attributable to lobbying expenses. Therefore, Staff recommends an adjustment to remove $14,534, which represents the expenses attributable to industry associations for which Staff finds recovery inappropriate and EEI related lobbying expenses.”[[14]](#footnote-15)

While OCC agrees with the PUCO Staff’s rational for excluding these expenses, the PUCO Staff did not go far enough. OCC recommends reducing test year operating expenses for dues and memberships by at least $241,572, as the DP&L has failed to meet its burden of proof that these expenses are ordinary and necessary in the provision of electric service to consumers

### Objection 8. The Staff Report erred by not recommending depreciation expense adjustments based on OCC’s recommended storm cost and capitalized incentive adjustments.

If OCC objections 4 and 5 regarding capitalized incentives and storm costs are adopted, corresponding adjustments would need to be made to the test year depreciation expense. The Staff Report does not include such an adjustment.[[15]](#footnote-16) OCC recommends an adjustment to depreciation expense related to its capitalized storm cost adjustment by reducing depreciation expense by $218,428. Depreciation expense will need to be further adjusted once capitalized incentives are identified and removed from Plant In Service.

### Objection 9. OCC reserves the right to object to charges to consumers for DP&L’s rate case expenses, which will be provided as a late-filed exhibit.

The Staff Report recommends that the PUCO “review the most recent updated information regarding Applicant’s rate case expense before issuing its final Order” and that DP&L be required to “submit this information as a late filed exhibit.”[[16]](#footnote-17) OCC reserves the right to object to rate case expense based on any such late filed exhibit or otherwise.

### Objection 10. The PUCO Staff erred by making an adjustment to decrease test year operating income revenues by $5,019,523 without explanation or justification.

The Staff Report adjusted test year operating income by $5,019,523 without explanation.[[17]](#footnote-18) This is even greater than a similar adjustment made by DP&L of $2,426,956, and DP&L’s adjustment, like the PUCO Staff’s, has no justification. Without any explanation for these adjustments—which would increase the amount that consumers pay for distribution service—there is no basis for them, and they should be rejected.

### Objection 11. The Staff Report erred by not making an adjustment to the unadjusted test year expenses to remove $952,488 in travel and entertainment savings arising from the coronavirus pandemic.

As a result of the coronavirus pandemic and financial emergency, both of which affected the test period, DP&L reduced its operating expenses by $952,488 related to travel and entertainment. Because this money was not spent, these unadjusted expenses should be removed from test year expenses, thus reducing the amount that consumers pay for distribution service.

### Objection 12. The Staff Report erred by recommending a $1.8 million increase in the baseline expense for vegetation management without any analysis or support and without any requirement for DP&L to improve reliability.

The Staff Report recommends an annual baseline of $17.5 million for vegetation management expenses, which is a $1.8 million increase over the current charges to consumers in base rates for vegetation management.[[18]](#footnote-19) OCC objects because the Staff Report does not explain the basis for the increase. Further, if there is to be an increase in charges to consumers for vegetation management, such increase should be conditioned upon improvements in distribution reliability. Additionally, in recommending any charges to consumers for vegetation management, the Staff Report should have addressed requirements pertaining to the frequency of regular tree-trimming cycles. DP&L is required to trim trees within the right-of-way on a five-year cycle, but it has failed to do so. The Staff Report should have considered DP&L’s failure to adhere to its proper tree trimming cycle in recommending charges to consumers for vegetation management.

### Objection 13. The Staff Report erred by recommending that consumers pay $2.75 million per year for DP&L’s deferred vegetation management expenses.

The Staff Report recommends that consumers pay $2,748,050 per year (about $13.7 million with a five-year amortization) for DP&L’s deferred vegetation management expenses.[[19]](#footnote-20) OCC objects to these charges because the Staff Report contains no information about whether these expenses were prudently incurred. And indeed, since 2018, DP&L’s tree trimming performance has been inadequate, with DP&L failing to comply with its own Inspection, Maintenance, Repair and Replacement Program. The PUCO should reject these charges to consumers because the costs were not prudently incurred.

### Objection 14. The Staff Report erred by recommending that DP&L be allowed to defer up to $5 million in vegetation management expenses, which could be charged to consumers later.

In addition to the $20 million that consumers would pay annually for vegetation management ($17.5 million in baseline charges plus $2.75 million for deferred amounts identified above), the Staff Report recommends that DP&L be allowed to defer up to an additional $5 million per year, which could be charged to consumers later.[[20]](#footnote-21) The Staff Report does not explain the basis for this $5 million amount.

OCC objects to this deferral recommendation. Consumers are already being required to pay more than $20 million per year for vegetation management, and neither DP&L nor the PUCO Staff has demonstrated that it is prudent or necessary for consumers to pay even more than that. And the Staff Report’s recommended deferral does not include any firm, quantifiable requirements for improvements in distribution reliability, nor does it require DP&L to adhere to its distribution vegetation management plan.

## E. Rate of Return

### Objection 15. The Staff Report erred by concluding that DP&L’s capital structure is appropriate without consideration of the proxy group’s book value capital structure or other benchmarks such as the common equity ratio being awarded to electric utilities around the United States recently. The proxy group’s capital structure cannot be ignored since it is used to estimate DP&L’s cost of equity. A more appropriate capital structure would be 52.89% common equity and 47.11% long-term debt.[[21]](#footnote-22)

### Objection 16. The Staff Report erred by only relying on Value Line as a source for beta estimates to use in its CAPM without consideration of other sources as a check on the reasonableness of Value Line’s betas. The Staff’s beta estimates are abnormally high, are being heavily influenced by market volatility experienced in 2020 as a result of the anomalous event of the pandemic caused by COVID-19, and do not necessarily capture investor expectations.[[22]](#footnote-23)

### Objection 17. The Staff Report erred by relying on the average of 10-year and 30-year Treasury yields over a 15-year historical period ending January 2021 as a proxy for the risk-free rate in its CAPM. The Staff’s method of estimating the risk-free rate is arbitrary and not shown to be based on investor expectations.[[23]](#footnote-24)

### Objection 18. The Staff Report erred by relying solely on a non-constant growth DCF while ignoring the constant growth DCF results it had produced. The average and median of the Staff’s constant growth DCF analysis are 8.93% and 9.10%, respectively.[[24]](#footnote-25)

### Objection 19. The Staff Report erred by using a purely historical measure of U.S. Gross National Product of 6.32% for the terminal growth rate used in its non-constant growth DCF when there are multiple sources of projected economic growth which reflect investors’ expectations.[[25]](#footnote-26)

### Objection 20. Staff inappropriately increased the ROE by allowing an adjustment for equity issuance and other costs.[[26]](#footnote-27)

### Objection 21. The Staff Report’s recommended rate of return range of 7.05% to 7.59% is too high and would result in unjust and unreasonable rates for consumers.

As a result of the foregoing objections, the Staff Report’s recommended rate of return range of 7.05% to 7.59% is too high for consumers to pay. The Staff Report’s recommended capital structure should be adjusted to reflect a higher debt to equity ratio. And the Staff Report’s recommended return on equity range of 9.28% to 10.29% is too high. A more reasonable rate of return would be 7.01% or lower.

## F. Rates and Tariffs

### Objection 22. OCC objects to the Staff Report’s recommendation to allocate 66.70% of base distribution charges to residential consumers because residential consumers should pay no more than 63.10% of base distribution charges.

The Staff Report adopts DP&L’s proposal that residential consumers pay 66.70% of base distribution charges.[[27]](#footnote-28) OCC objects because residential consumers should be allocated no more than 63.10% of base distribution charges. Dayton-area consumers face considerable poverty, with 32% of consumers in the City of Dayton living in poverty—more than twice the state average.[[28]](#footnote-29) And before the pandemic, more than 14% of Ohioans in Montgomery had inadequate access to food.[[29]](#footnote-30) These circumstances, coupled with the coronavirus pandemic and financial emergency, demand that the PUCO protect residential consumers by allocating to them no more than 63.10% of base distribution charges.

### Objection 23. The PUCO Staff’s recommended customer charge of $9.75 is too high because it includes charges for line transformers, uses an unreasonably high carrying cost of 26.35%, and violates the regulatory principle of gradualism. A more reasonable customer charge would be no greater than $8.25.

The Staff Report recommends an increase in DP&L’s residential customer charge (the amount that each consumer pays before using any natural gas) from $7.00 to $9.75.[[30]](#footnote-31) OCC objects to this customer charge for several reasons. First, it includes charges for Account 368, Line Transformers, which should not be included in the fixed charge. Second, it utilizes a 26.35% carrying cost instead of DP&L’s proposed carrying cost of 25.00%. Third, an increase of this magnitude violates the regulatory principle of gradualism, which the PUCO has described as a “longstanding and important regulatory principles [that] seeks to minimize the impact of rate changes on customers.”[[31]](#footnote-32) A more reasonable customer charge would be no more than $8.25 per month (assuming the PUCO Staff’s recommended rate increase is approved; if a lower rate increase is approved, as OCC recommends, then a lower customer charge would be appropriate).

## G. Service Monitoring and Enforcement

### Objection 24. The Staff Report erred by failing to recommend financial penalties associated with DP&L’s failure to comply with the minimum PUCO distribution reliability standards in 2019 and 2020 enumerated in O.A.C. 4901:1-10-10(E).

The Staff Report noted that DP&L failed to provide adequately reliable service in 2019 and 2020, as shown by DP&L failing to meet its customer average interruption duration index (CAIDI) standard in each of 2019 and 2020.[[32]](#footnote-33) The Staff Report notes that this violates O.A.C. 4901-1-10(E).[[33]](#footnote-34) The Staff Report, however, erred by failing to recommend a financial penalty. Financial penalties are especially appropriate given that customers were harmed through outages. Financial penalties are also a deterrent to DP&L to continue its current management policies and practices that result in inadequate and unreliable services that may have been avoidable had DP&L continued operation under its ESP III and complied with its vegetation management plan.

### Objection 25. The Staff Report erred by failing to require DP&L to develop a remedial plan to address its failure to consistently enroll customers in an extended payment plan following the submission of a medical certificate in compliance with Ohio Admin. Code 4901:1-18-06(C)(3)(e).

In 2020, approximately 1,450 DP&L consumers applied for the medical certification protections available under Ohio law.[[34]](#footnote-35) And between January 2021 and July 2021, over 1,800 DP&L consumers have already applied this year for medical certification protections.[[35]](#footnote-36) The offering of extended payments plans when consumers apply for the medical certification is extremely important to help consumers avoid future delinquency and possible loss of electric service.

The PUCO should require DP&L to file a remediation plan for coming into compliance with Ohio Adm. Code 4901:1-18-06(C) within 30 days of an Order in this proceeding. The remediation plan should include at a minimum, DP&L plans for training its personnel on medical certifications and the need for establishing extended payment agreements. Additionally, the remediation plan should address the need and willingness of DP&L personnel to extend more liberal payment plans with consumers that recognize the health and safety risks of these consumers. The remediation plan should also address the need for further monitoring by DP&L and Staff to ensure that consumers who apply for medical certification are consistently offered extended payment agreements as required by Ohio law and PUCO rules.

# III. CONCLUSION

To protect consumers from paying rates that are unjust or unreasonable, the PUCO should adopt OCC’s recommendations set forth in these objections, which are further developed in OCC testimony and OCC’s motion to dismiss.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that a copy of these Objections was served on the persons stated below via electronic transmission, this 25th day of August 2021.

*/s/ Christopher Healey*

Christopher Healey

Assistant Consumers’ Counsel

The PUCO’s e-filing system will electronically serve notice of the filing of this document on the following parties:

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2. Staff Report, Schedule A-1 (July 26, 2021). [↑](#footnote-ref-3)
3. *In re Application of the Dayton Power & Light Co. for an Increase in its Elec. Distrib. Rates*, Case No. 15-1830-EL-AIR, Opinion & Order (Sept. 26, 2018) (approving a $29.8 million increase). [↑](#footnote-ref-4)
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6. *Id.*, Second Finding & Order (Dec. 18, 2019). [↑](#footnote-ref-7)
7. *See* The Ohio Poverty Report, June 2020, Ohio Development Service Agency. [↑](#footnote-ref-8)
8. *See* State of Poverty in Ohio 2020, Ohio Association of Community Action Agencies, at 34 (showing 36.2% of the population in Montgomery County at or below 200% of federal poverty guidelines). [↑](#footnote-ref-9)
9. *See* Food Insecurity in Montgomery County Before COVID-19, *available at* <https://map.feedingamerica.org/county/2019/overall/ohio/county/montgomery>. [↑](#footnote-ref-10)
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13. Staff Report at 10. [↑](#footnote-ref-14)
14. Staff Report at 19. [↑](#footnote-ref-15)
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27. Staff Report at 27, Table 2. [↑](#footnote-ref-28)
28. *See* The Ohio Poverty Report, June 2020, Ohio Development Service Agency. [↑](#footnote-ref-29)
29. *See* <https://map.feedingamerica.org/county/2019/overall/ohio/county/montgomery>. [↑](#footnote-ref-30)
30. Staff Report at 29. [↑](#footnote-ref-31)
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33. Staff Report at 37. [↑](#footnote-ref-34)
34. Electric PIPP Report December 2020 provided by DP&L. [↑](#footnote-ref-35)
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