BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company for Approval of its Electric Security Plan	)	Case No. 08-1094-EL-SSO
In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs	)	Case No. 08-1095-EL-ATA
In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority Pursuant to Ohio Rev. Code 4905.13	)	Case No. 08-1096-EL-AAM
In the Matter of the Application of The Dayton Power and Light Company for Approval of its Amended Corporate Separation Plan	)	Case No. 08-1097-EL-UNC

DIRECT TESTIMONY OF VICTOR P. GALLINA

ON BEHALF OF

STAFF OF PUBLIC UTILITIES COMMISSION OF OHIO

February 3, 2009

DIRECT TESTIMONY OF VICTOR P. GALLINA

1. Q. Please state your name and business address?

A. My name is Victor P. Gallina. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utilities Commission of Ohio as a Public Utility Administrator 2 in the Rates and Tariffs/Energy and Water Division of the Utilities Department.

3. Q. Please outline your educational background and work experience?

A. I received a Bachelor of Science Degree in Business Administration with a major in Accounting from Ohio State University in 1979. I began employment with the Commission that same year by joining the Accounts and Valuation Division of the Utilities Department. During the first five years of my employment I performed rate case audits of various gas, electric, telephone, and water utilities. I testified in several of those proceedings on revenue requirement issues. In 1984, shortly after the break up of the Bell System, I transferred to the

Telecommunications Division. For the next 17 years I worked on various telecommunications issues and cases; my duties included responsibility for rate design and cost of service studies in rate cases and alternative regulation cases, but mainly I dealt with a panoply of issues that arose as that industry transitioned to one characterized by competition. I joined the Electricity Division in 2001 and was assigned to the Rates and Tariffs/Energy and Water Division upon its inception in 2005. My current duties include review of electric utility tariff applications, and to assist in other matters in which the Division has responsibilities.

4. Q. What is the purpose of your testimony in this proceeding?

A. I will provide staff's position with respect to government aggregation, the economic development/unique arrangement rider, carrying charges, and the company's proposed fuel deferral.

5. Q. Have you reviewed the applicant's proposal with respect to governmental aggregation programs?

A. Yes. The company proposes that customers who return to DP&L for generation service do so at market-based rates. This market-based rate proposal would be tariffed under the company's Adjustable Rate Tariff, Sheet No. G23. Additionally, the nonbypassable Rate Stabilization Surcharge would continue to apply to customers who leave DP&L's standard service offer generation tariff.

6. Q. Do you believe the company's proposal to be reasonable?

A. Conceptually, yes. However, the company has not put forth a specific Adjustable Rate Tariff proposal – it intends to file this tariff at a future date. Staff believes the Adjustable Rate Tariff should have been developed in this proceeding. Since that is not practicable, then staff recommends any customers who return to DP&L's generation service prior to the approval of an Adjustable Rate Tariff be allowed to do so under standard service offer rates.

7. Q. What is your position on the company's economic development proposal?

A. The company's Economic Development Plan is found at Book I, Chapter 3 of its Electric Security Plan (ESP). The Plan contains arrangements for new customers, customers the company seeks to retain, customers involved in the manufacture or assembly of energy efficiency products, and a provision for unique arrangements with customers. These programs appear to be consistent with the Commission's currently pending rules (see OAC Chapter 4901:1-38, Case No. 08-777-EL-ORD).

In addition, the company has estimated its delta revenue attributable to these programs as well as billing system modifications required to accommodate the billing of customers under this program. Further, the company has proposed a rider, with an effective date of April 1, 2009, to recover its 2009 costs.

8. Q. Do you agree with this aspect of the company's proposal?

A. No. The number of customers approved for participating in these programs and their usage is speculative at this time. Likewise, the delta revenues are also unknown. Staff recommends the company's economic development rider tariff be approved, but at a zero rate. As delta revenues are approved by the Commission, the rider can be effectuated and adjusted as need be.

9. Q. The company has proposed carrying charges be applied in conjunction with a number of programs proposed in its ESP. Specifically, carrying charges are proposed as part of the economic development rider, the

fuel and purchased power deferral, the infrastructure investment rider, the energy efficiency rider, and the alternative energy rider. What is staff's position, in general, with respect to the proper carrying charge to use for each of these programs?

A. In general, where program expenses are, in fact, booked expense items, then the company's cost of debt is the appropriate rate to use for carrying purposes. In most instances, where the costs to be carried are capital in nature, then the full cost of capital, grossed up for income tax effects, is the appropriate carrying charge to use.

10. Q. With that in mind, what do you recommend for each of the programs you just mentioned?

A. First, I would mention that Staff recommends against the fuel and purchased power deferral and the infrastructure investment rider. Accordingly, the carrying charge issue is moot for those programs. For the remaining three, the costs are largely, if not exclusively, expensed items. Costs not concurrently recovered should be carried at the company's cost of debt. The company's 5.86%, shown on their Schedule D-1, appears to be reasonable.

11. Q. Please explain your understanding of the Applicant's proposed fuel deferral.

A. During the ESP, the company proposes to defer fuel and purchased power costs that are in excess of the fuel cost amounts embedded in current rates. The deferred dollars would accrue carrying charges. A rider would be implemented beginning January 1, 2011 and the deferral would be recovered over a 10 year period.

12. Q. What is your position on the fuel deferral?

A. I do not believe a fuel and purchased power deferral is appropriate, and that the company's proposal be denied. In Case No. 05-276-EL-AIR the company and a number of intervenors entered into a Stipulation to provide stable prices through 2010. These stabilized prices included implementation of a Rate Stabilization Charge, an Environmental Investment Rider, and, after December 31, 2008, the elimination of certain residential discounts. No other generation-related increases were contemplated by the Stipulation. The Commission, in its December 28, 2005 Opinion and Order, largely approved the Stipulation. The Commission, at page 8 of its Order found that "...there is significant value to providing predictable, stable rates for 2009 and 2010 rather than relying on projected market rates. Because of the unpredictable nature of the market for 2009 and 2010, the Commission finds that, although it is difficult to quantify the value of stable, predictable rates precisely, the known rates do have value for customers."

13. Q. Has the company proposed to disturb the terms of the Stipulation by raising rates in 2009 and 2010?

A. Not directly. However, by proposing to recover 2009 and 2010 fuel costs beginning in 2011 the company is, in essence, raising 2009 and 2010 rates on a deferred basis. I believe this to be contrary to the spirit and intent of the Stipulation and the Order in the 05-276 case.

14. Q. Do you have any other comments on proposed fuel deferral?

A. Yes. While it appears Section 4928.143(D) allows the company to propose this fuel deferral, it seems that the company is already recovering fuel costs through existing rates. In addition, there is no incremental fuel cost attributable to the requirements of SB 221.

15. Q. Explain.

A. Section 4928.134(D), in pertinent part, provides that: "the utility may include in its electric security plan under this section, and the commission may approve, modify and approve, or disapprove subject to division (C) of this section, provisions for the incremental recovery or the deferral of any costs that are not being recovered under the rate plan and that the utility incurs during the continuation period to comply with Section 4928.141...." I have performed a "back of the envelope" calculation which strongly suggests the company is recovering all of its costs up through the most recent reporting period. Hence, the company would fail the "not being recovered" portion of the statute.

16. Q. Go on.

A. Using Form 1 data for 2007, I took the company's Net Income and divided it by the Total Proprietary Capital. The result is the company's Return on Total Equity. For 2007, the return was 19.5%. Results through the third quarter of 2008 were obtained from data in the company's Form 1/3-Q. That return was 13.7% which I annualized to 18.3%. These returns exceed the company's requested Return On Common Equity, per Schedule D-1, of 11.30% which indicates the company is more than recovering its costs, including fuel costs.

17. Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the Testimony of Victor P. Gallina was served this 3rd day of February, 2009 by electronic mail or, where no e-mail address is available, by regular U.S. mail, postage prepaid, upon the persons listed below.

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