

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The)
Dayton Power and Light Company for)
Authority to Modify its Accounting) Case No. 12-2281-EL-AAM
Procedure for Certain Storm-Related)
Service Restoration Costs.)

ENTRY ON REHEARING

The Commission finds:

- (1) The Dayton Power and Light Company (DP&L or the Company) is a public utility as defined by Section 4905.02, Revised Code, and, as such, is subject to the jurisdiction of this Commission.
- (2) On August 10, 2012, DP&L filed an application in this case, as amended on October 19, 2012, seeking authority to defer, as a regulatory asset, the distribution-related Operation and Maintenance (O&M) expenses associated with restoring electric service as a result of damage by the storms that took place during the final weekend of June 2012. The Company proposed to defer, for future recovery, O&M expenses, with carrying costs based on its actual cost of long-term debt of 5.86 percent, which was approved in DP&L's last Electric Security Plan (ESP), Case No. 08-1094-EL-SSO, et al. As of September 30, 2012, the Company estimated the amount of the deferral to be approximately \$5.9 million. The Company was not requesting to commence recovery of the O&M expenses associated with repairing/replacing the distribution facilities damaged by the storms. Rather, it was seeking approval to defer the related O&M expenses, with carrying costs, for future recovery, over a period of time and beginning at a date to be determined by the Commission in a future proceeding.
- (3) On December 11, 2012, the Office of the Ohio Consumers' Counsel (OCC) filed comments to DP&L's application. On December 13, 2012, DP&L filed reply comments to OCC's comments.

- (4) On December 19, 2012, the Commission issued a finding and order (Order) approving the application and setting the carrying costs at 5.86 percent until a new cost of long-term debt is approved by the Commission. The Commission noted in its finding and order that DP&L was seeking carrying costs equal to its long-term cost of debt in its most recently approved ESP, whereas OCC commented that the carrying costs should be equal to DP&L's cost of long-term debt in its most recently proposed ESP. The Commission directed that the carrying costs should be set equal to DP&L's cost of long-term debt in its most recently approved ESP, but that, when a new cost of long-term debt is approved, the carrying costs should be revised to reflect the new cost of long-term debt. The Commission directed that the carrying costs should continue until the balance is recovered, despite OCC's recommendation that the deferral be limited to 12 months.
- (5) Section 4903.10, Revised Code, states that any party to a Commission proceeding may apply for rehearing with respect to any matters determined by the Commission, within 30 days of the entry of the order upon the Commission's journal. On January 18, 2013, DP&L and OCC each filed applications for rehearing on separate issues. On January 28, 2013, DP&L and OCC each filed their respective memoranda in opposition to the applications for rehearing.
- (6) DP&L argues in its application for rehearing that the Commission erred in reducing DP&L's recovery for its O&M expenses associated with the June 2012 Derecho storm by the three-year average of O&M expenses associated with major storms. DP&L argues that the Commission's error was both unreasonable and unlawful. DP&L's argument rests on two premises; first, that Commission precedent shows that DP&L's current rates do not include recovery for major storm damage and, second, that the Commission's decision is inconsistent with the stipulation and recommendation in DP&L's most-recently approved Electric Security Plan, Case No. 12-426-EL-SSO.

DP&L argues that Commission precedent shows that DP&L's current rates do not include recovery for major storm damage. DP&L notes that Case No. 91-414-EL-AIR

was DP&L's last distribution rate case and that it was settled via a stipulation. The stipulation established that DP&L's then-existing rates would be increased by a specified amount, but it did not identify the specific costs that it was designed to recover. However, DP&L argues that Commission precedent at the time of the stipulation demonstrates that test year costs associated with major storms were typically excluded. To support this argument, DP&L cites Case Nos. 82-1025-EL-AIR, 82-517-EL-AIR, and 79-1343-WW-AIR. DP&L then references the terms of the stipulation in Case No. 08-1094-EL-SSO and argues that the stipulation authorizes DP&L to recover the cost of storm damage without reduction.

OCC argues that that the stipulation in Case No. 91-414-EL-AIR prevents anyone from knowing how major storm costs were treated. OCC then argues that the cases presented by DP&L as precedent for excluding test year costs from major storms do not stand for that proposition. Furthermore, OCC points out that each of the cases cited by DP&L were decided as much as 10 years before Case No. 91-414-EL-AIR. OCC then cites to Case Nos. 08-1332-EL-AAM and 08-1301-EL-AAM to demonstrate Commission precedent for reducing O&M expenses by the three-year average of O&M expenses associated with major storms. Finally, OCC argues that the stipulation in Case No. 08-1094-EL-SSO only reserves DP&L's right to seek emergency rate relief or to apply to the Commission for approval of separate rate riders to recover the cost of storm damage, but does not grant DP&L authority to recover the cost of storm damage without reduction.

- (7) The Commission finds that DP&L's application for rehearing should be denied and that DP&L's recovery of O&M expenses should be reduced by the three-year average of O&M expenses associated with major storms. Reducing DP&L's recovery of O&M expenses by the three-year average of O&M expenses associated with major storms is consistent with Commission precedent, most notably Case No. 08-1332-EL-AAM. In that case, DP&L applied for authority to defer, as a regulatory asset, a portion of its O&M expenses associated with restoring electric service to its customers in the aftermath of Hurricane Ike. DP&L proposed to defer the amount by

which the total O&M expenses associated with the Hurricane Ike-related service restoration expenses experienced in 2008 exceeded the three-year average service restoration O&M expenses associated with major storms. Here, DP&L makes a similar application except the application is for the entire amount and not just the amount that exceeds the three-year average service restoration O&M expenses associated with major storms. The Commission notes that allowing DP&L to recover the full amount could allow for DP&L to engage in double-recovery for the O&M expenses, first from base distribution rates and second from this proceeding.

Accordingly, the Commission finds that it would be inconsistent with Commission precedent to allow DP&L to defer the full amount, and that deferral of the full amount may result in double recovery of O&M expenses. The Commission finds that DP&L's application for rehearing should be denied.

- (8) OCC argues in its application for rehearing that the Commission erred by not specifying the process for amending a carrying cost rate when a new cost of long-term debt is approved and the Commission erred when it failed to order that the accrual of carrying costs on any unamortized deferral balance should be limited to 12 months. OCC argues that DP&L's currently proposed ESP contains a cost of long-term debt of 4.94 percent, so, if the ESP is approved, DP&L's cost of long-term debt will change from 5.86 percent to 4.94 percent. However, OCC argues that the Commission's Finding and Order fails to explain how this change in the long-term debt should be applied to the carrying charge in the present case. OCC argues that the Commission should establish a procedure through which the carrying charge is amended to reflect the most recently approved cost of long-term debt and establish a framework for parties to be made aware of changes to the approved carrying cost rate.

OCC then argues that the Commission erred when it failed to order that the accrual of carrying costs on any unamortized deferral balance should be limited to 12 months. OCC argues that this would permit DP&L to accrue carrying costs for years, which would unnecessarily

increase the cost for consumers. OCC argues that limiting the amount of time that DP&L can accrue a carrying charge on unamortized deferral balances is sound regulatory policy and will reduce the total amount of costs that customers are asked to pay in future rates.

DP&L argues that carrying costs should not be limited to one year for numerous reasons: that the costs are reasonably and prudently incurred, that the purpose of carrying costs is to compensate the Company for the lost opportunity costs that the Company incurs on unrecovered cash expenditures, that the issue of the recovery of carrying costs is not ripe for rehearing, and that the arguments presented by OCC are not relevant to this case.

- (9) The Commission finds that OCC's application for rehearing should be denied. The Commission found that, when a new cost of long-term debt is approved, the carrying costs should then be amended to reflect the newly approved rate. The Commission finds that DP&L should apply the newly approved cost of long-term debt to the remaining unrecovered storm deferral from the effective date of the new cost of long-term debt, if approved in DP&L's pending ESP case. This amount will then be reflected in the amount the Company seeks to recover in Case No. 12-3062-EL-RDR, which is the case in which DP&L has filed an application to recover the storm-related restoration costs that are at issue in this case. To the extent OCC disagrees with DP&L's implementation of carrying charges, OCC will be able to raise this issue in Case No. 12-3062-EL-RDR.
- (10) The Commission further notes 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. As the Supreme Court has previously held, deferrals do not constitute ratemaking. *See Elyria Foundry Co. v. Pub. Util. Comm.*, 114 Ohio St.3d 305, 2007-Ohio-4164, 871 N.E.2d 1176. Accordingly, the reasonableness of the deferred amounts and the recovery thereof will be addressed by the Commission in Case No. 12-3062-EL-RDR.

It is, therefore,

ORDERED, That the applications for rehearing filed by DP&L and OCC be denied as set forth above. It is, further,

ORDERED, That a copy of this entry on rehearing be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

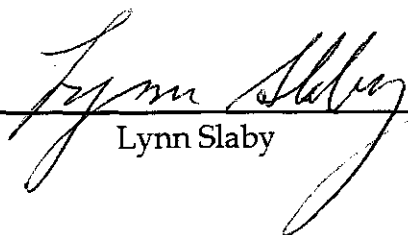
Todd A. Snitchler, Chairman



Steven D. Lesser



Andre T. Porter

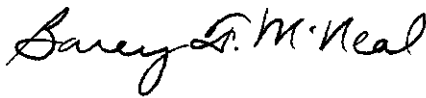


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Secretary