



**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. 12-426-EL-SSO
In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs	) ) )	Case No. 12-427-EL-ATA
In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority	) ) ) )	Case No. 12-428-EL-AAM
In the Matter of the Application of The Dayton Power and Light Company for Waiver of Certain Commission Rules	) ) )	Case No. 12-429-EL-WVR
In the Matter of the Application of The Dayton Power and Light Company to Establish Tariff Riders	) ) )	Case No. 12-672-EL-RDR

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**DIRECT TESTIMONY OF JOSEPH G. BOWSER  
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

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1    **I.    INTRODUCTION**

2    **Q1.    Please state your name and business address.**

3    A1.    My name is Joseph G. Bowser, 21 East State Street, 17<sup>th</sup> Floor, Columbus, Ohio  
4            43215.

5    **Q2.    By whom are you employed and in what position?**

6    A2.    I am a Technical Specialist for McNees Wallace & Nurick LLC (“McNees”),  
7            providing testimony on behalf of the Industrial Energy Users-Ohio (“IEU-Ohio”).

1 **Q3. Please describe your educational background.**

2 A3. In 1976, I graduated from Clarion State College with a Bachelor of Science  
3 degree in Accounting. In 1988, I graduated from Rensselaer Polytechnic Institute  
4 with a Master of Science degree in Finance.

5 **Q4. Please describe your professional experience.**

6 A4. I have been employed by McNees for over seven years where I focus on  
7 assisting IEU-Ohio members address issues that affect the price and availability  
8 of utility services. As part of my responsibilities, I provide IEU-Ohio members  
9 assistance as they evaluate and act upon opportunities to secure value for their  
10 demand response and other capabilities in the base residual auction (“BRA”) and  
11 incremental auctions conducted by PJM Interconnection LLC (“PJM”) as part of  
12 the Reliability Pricing Model (“RPM”). Prior to joining McNees, I worked with the  
13 Office of the Ohio Consumers’ Counsel (“OCC”) as Director of Analytical  
14 Services. There I managed the analysis of financial, accounting, and ratemaking  
15 issues associated with utility regulatory filings. I also spent ten years at  
16 Northeast Utilities, where I held positions in the Regulatory Planning and  
17 Accounting Departments, provided litigation support in regulatory hearings and  
18 assisted in the preparation of the financial/technical documents filed with state  
19 and federal regulatory commissions. I began my career with the Federal Energy  
20 Regulatory Commission (“FERC”), where I led and conducted audits of gas and  
21 electric utilities in the Eastern and Midwestern regions of the United States.

22 **Q5. Have you previously submitted expert testimony before the Public Utilities**  
23 **Commission of Ohio (“Commission” or “PUCO”)?**

1 A5. Yes. Since 1996, I have submitted testimony as an expert on numerous  
2 regulatory accounting issues and how those issues should be resolved for  
3 purposes of establishing rates and charges of public utilities. A listing of cases in  
4 which I have submitted expert testimony is attached as Exhibit JGB-1.

5 **Q6. What is the purpose of your testimony in this proceeding?**

6 A6. The purpose of my testimony is to explain why the Commission should not  
7 approve the Dayton Power and Light Company's ("DP&L") proposed non-  
8 bypassable Alternative Energy Rider ("Rider AER-N") and the proposed non-  
9 bypassable Reconciliation Rider (RR). I also explain why the Commission  
10 should deny DP&L's request to require all customers to pay a non-bypassable  
11 Service Stability Rider ("Rider SSR") and Switching Tracker ("ST") which DP&L  
12 claims are necessary to protect its "financial integrity", which DP&L improperly  
13 defines to include financial and business risks associated with traditionally  
14 regulated as well as competitive lines of business such as the retail and  
15 wholesale generation supply business. Broadly speaking, these proposals are  
16 part of a proposed electric security plan ("ESP") which functions to insulate DP&L  
17 and its shareholder from the risks associated with competitive lines of business,  
18 such as the generation supply business, at a time when it is my understanding  
19 that these competitive lines of business must be fully on their own in the  
20 competitive market.

21 **Q7. What did you review for purposes of preparing your testimony?**

22 A7. I reviewed the direct testimony and related schedules and workpapers submitted  
23 by DP&L in support of its application, responses to discovery, FERC Annual

1 Reports ("FERC Form 1s") and Securities and Exchange Commission ("SEC")  
2 reports, entries issued by the Commission in these proceedings, DP&L's  
3 Application in Case No. 13-0404-EL-RDR, and the Commission's Opinion and  
4 Order in Case No. 04-169-EL-UNC.

5 My recommendations also reflect the knowledge I have accumulated throughout  
6 my career.

7 **Q8. Have you summarized your recommendations?**

8 A8. Yes. My recommendations are summarized as follows:

9 With respect to DP&L's proposed RR, the Commission should deny DP&L's  
10 request to implement the RR as a non-bypassable charge.

11 With respect to DP&L's proposed Rider AER-N, the Commission should not  
12 approve establishment of this rider; however, if it does so, it should require that  
13 this rider be implemented on a bypassable basis.

14 I also recommend the Commission deny DP&L's proposals for Rider SSR and  
15 the ST, which serve to raise rates and guarantee revenues, based on claims that  
16 DP&L's generation business will run into financial problems if the ESP proposed  
17 by DP&L is not approved as-filed with the Commission. Rider SSR and the ST  
18 also impede customers from gaining access to suppliers offering lower electric  
19 bills as their non-bypassability artificially decreases the price to compare for  
20 shopping customers, making it more difficult for CRES providers to compete with  
21 DP&L.

22 **II. NON-BYPASSABLE RECONCILIATION RIDER (RR)**

1 **Q9. What has DP&L proposed regarding the non-bypassable RR?**

2 A9. The proposed RR would allow DP&L to collect from customers the costs  
3 associated with administering and implementing the competitive bid process  
4 (“CBP”) that DP&L proposes to introduce as part of its proposed ESP and the  
5 costs of implementing certain competitive retail system enhancements. In  
6 addition, the proposed RR would amortize, through cash collections, any  
7 deferred balance that exceeds 10% of the base recovery rate associated with  
8 any of the following “true-up” riders: the Fuel Rider, the PJM Reliability Pricing  
9 Model Rider (RPM Rider), the Transmission Cost Recovery Rider – Bypassable  
10 (“TCRR-B”), the Alternative Energy Rider (“AER”), and the Competitive Bid True-  
11 Up Rider (“CBT”). The CBT is a true-up mechanism intended to recover the  
12 difference between amounts billed to customers through the Competitive Bid  
13 Rate and the amounts paid to suppliers for the delivery of Standard Service Offer  
14 (“SSO”) supply, as a result of the CBP auctions. Each of these “true-up” riders is  
15 bypassable by shopping customers. When DP&L reaches the point where it is  
16 procuring 100% of its SSO load through the CBP as of June 1, 2016, any  
17 remaining deferral balance or credit for the Fuel Rider, RPM Rider, and TCRR-B  
18 will be subject to recovery and amortization through the RR at that time. DP&L  
19 has proposed to update the RR on a quarterly basis and this will potentially  
20 introduce some instability into electric bills. As proposed, the RR is a non-  
21 bypassable rider and is assessed on all kilowatt hours (“kWh”) of electricity per  
22 tariff class with any over or under recovery accruing carrying charges at DP&L’s  
23 embedded cost of long-term debt as of June 30, 2012 (4.943%), per DP&L’s  
24 workpaper 12.2.

1 **Q10. What specific costs would be recovered through the RR related to the CBP**  
2 **and competitive retail enhancements under DP&L's proposal?**

3 A10. As stated in the pre-filed testimony of DP&L witness Emily W. Rabb (whose  
4 testimony has been adopted by DP&L witness Dona R. Seger-Lawson), CBP  
5 costs include the costs of consultant fees, supplier default costs, the costs of  
6 administering the CBP auction, and any PUCO consultant costs and audit costs.  
7 DP&L proposes that it would also be able to apply for recovery through the  
8 proposed RR quarterly true-up filing, any costs associated with implementing and  
9 administering the CBP that are not described above. The proposed RR would  
10 also recover the costs of competitive retail enhancements, which DP&L has  
11 described to include six projects related to interaction of Competitive Retail  
12 Electric Service ("CRES") providers with DP&L in DP&L's capacity as an electric  
13 distribution utility ("EDU"). Once a competitive retail enhancement project is  
14 placed in service, DP&L proposes to seek recovery from retail customers of the  
15 related revenue requirement (including a return on the capital investment at the  
16 weighted average cost of capital, as well as depreciation expense, operation and  
17 maintenance ("O&M") expense, and taxes other than income taxes) in its  
18 following quarterly RR filing. In response to Interrogatory OCC-206, which is  
19 attached to my testimony as Exhibit JGB-2, DP&L has indicated that the capital  
20 expenditures associated with the competitive retail enhancements will total  
21 approximately \$2.5 million. DP&L indicated in witness Seger-Lawson's Second  
22 Revised Direct Testimony that if the Commission approves rate recovery of these  
23 projects, then DP&L plans to implement most, if not all, of these enhancements  
24 within 24 months of rate approval.



1 **Q11. How would the various costs that DP&L proposes to include in the RR be**  
2 **recovered, and over what time period?**

3 A11. Under DP&L's proposal, the CBP expenses would be deferred and each year's  
4 deferral would be recovered over the next year *via* the RR. The revenue  
5 requirement for the capital costs of competitive retail enhancements would be  
6 recovered over the life of each asset placed in service. For the deferral balances  
7 exceeding 10% of the base recovery rate associated with the "true-up" riders that  
8 I listed earlier, the RR charge would be set to recover the deferral balances over  
9 the following quarter. DP&L is also proposing that the "true-up" riders all be  
10 adjusted quarterly, including the RPM rider, which is currently updated annually,  
11 and the TCRR-B portion of the current TCRR rider, which is also currently  
12 updated annually.

13 **Q12. Did DP&L identify the authority by which the PUCO can consider and**  
14 **approve the proposed RR?**

15 A12. In response to Interrogatories IEU-Ohio 5-3 and 5-4, which are attached to my  
16 testimony as Exhibit JGB-3, DP&L stated that it has filed an ESP under the  
17 provisions of Ohio Revised Code Section 4928.143 and that it is seeking  
18 authority under that section to implement the RR. DP&L referenced several sub-  
19 sections under which it believes the RR may be authorized, including Sections  
20 4928.143(B)(1), 4928.143(2)(a), 4928.143(B)(2)(d), 4928.143(B)(2)(e), and  
21 4928.143(B)(2)(g), Revised Code.

22 **Q13. In your opinion, is the proposed RR reasonable?**

1 A13. No. Under DP&L's proposal, the truing-up of previously bypassable charges  
2 would take place through an RR. In my opinion, it would not be sound regulatory  
3 policy to authorize a non-bypassable charge to collect costs (associated with the  
4 truing-up and elimination of the riders) that were previously collected through  
5 bypassable charges. To do so defeats the purpose of designating individual  
6 charges as bypassable or non-bypassable in the first place. For example,  
7 generation-related costs are typically recovered *via* bypassable charges because  
8 otherwise, shopping customers would pay twice for generation charges. The  
9 Fuel Rider, RPM Rider, CBT, and AER are all generation-related, and therefore,  
10 the final true-ups of these riders should not be made through a non-bypassable  
11 charge, as that would place additional costs on shopping customers that they  
12 should not have to incur. In short, while shopping customers are held  
13 responsible to pay for their own generation service (through their contracts with  
14 their CRES providers), under DP&L's proposed RR, they would also be held  
15 responsible to pay for the generation service costs to serve non-shopping  
16 customers.

17 The transfer of revenue responsibility to shopping customers is more than a  
18 hypothetical concern. In DP&L's latest application to update the TCRR-B and the  
19 RPM Rider (both riders are currently bypassable) in Case No. 13-0404-EL-RDR,  
20 the under-recoveries which DP&L is seeking authority to collect would have  
21 triggered recovery of a portion of the costs associated with these riders through  
22 the RR, as the under-recoveries for both of these riders are greater than 10% of  
23 the base rates for the riders. Thus, under DP&L's proposal for the RR, the  
24 excess of the under-recoveries over 10% of the base rates for the TCRR-B and

1 RPM Rider would have triggered the RR circuit breaker mechanism, thereby  
2 including these costs for recovery on a non-bypassable basis through the RR.

3 Further, it is my understanding, based upon the advice of counsel that Section  
4 4928.143, Revised Code, does not authorize a rider such as the RR to be  
5 recovered on a non-bypassable basis.

6 **Q14. What is your recommendation with respect to DP&L's proposed RR?**

7 A14. I recommend that the Commission reject DP&L's proposal to include the RR in its  
8 ESP as a non-bypassable charge. It would not be sound regulatory policy to  
9 approve the RR as a non-bypassable charge as it would result in an  
10 inappropriate shifting of costs to shopping customers and it is my understanding  
11 that such a non-bypassable charge is not permissible under Section 4928.143,  
12 Revised Code.

13 **III. NON-BYPASSABLE ALTERNATIVE ENERGY RIDER**  
14 **(RIDER AER-N)**

15 **Q15. What has DP&L proposed for Rider AER-N?**

16 A15. DP&L has proposed Rider AER-N as a non-bypassable placeholder rider with the  
17 amount of the charge initially set at zero. DP&L plans to file cost support for the  
18 rider within 6 months of the Commission order approving the proposed ESP.  
19 The costs that DP&L is proposing to recover under the rider at this time are costs  
20 associated with the Yankee Solar Generating Facility ("Yankee 1") and the rider  
21 would be in effect for the life of that facility. Yankee 1 is a 1.1 Megawatt ("MW")  
22 solar generation facility that was placed in service in 2010. Per DP&L's 2011

1 FERC Form 1 Report at page 410, Yankee 1 was built at an original cost of  
2 approximately \$3.3 million.

3 **Q16. What rationale has DP&L offered for the recovery of the Yankee 1 costs**  
4 **through a non-bypassable rider?**

5 A16. DP&L witness Seger-Lawson testifies on page 15 of her Second Revised  
6 Testimony that Yankee 1 meets the requirements set forth in Section  
7 4928.143(B)(2)(c), Revised Code, for the establishment of a non-bypassable  
8 charge for the life of an electric generating facility owned or operated by an EDU.  
9 It is my understanding that those requirements are that the facility was sourced  
10 through a CBP, is newly used and useful on or after January 1, 2009, and that  
11 the Commission must have determined that there is a need for the facility based  
12 on resource planning projections in the proceeding.

13 **Q17. In your opinion, is the proposed Rider AER-N appropriate?**

14 A17. No. It is my understanding, based upon the advice of counsel, Ohio law  
15 specifically requires that the cost of compliance with Ohio's renewable portfolio  
16 mandates must be bypassable by shopping customers. More specifically, it is  
17 my understanding that Section 4928.64(E), Revised Code, states that all costs  
18 incurred by an EDU in complying with these requirements shall be bypassable by  
19 any customer that has exercised choice of supplier.

20 Further, I disagree with witness Seger-Lawson's assertion that there is  
21 significance to the Commission's finding in DP&L's Long Term Forecast Report  
22 case that there was a need for Yankee 1. On the advice of counsel, according to  
23 Section 4928.143(B)(2)(c), Revised Code, the finding of need must be satisfied in

1 an ESP case. Moreover, it is my understanding that a finding of need cannot be  
2 made regarding a solar generating facility in an ESP because, as noted above,  
3 Ohio law prohibits recovery of all renewable benchmark compliance costs  
4 through a non-bypassable charge (Section 4928.64(E), Revised Code).

5 **Q18. What is your specific recommendation with respect to DP&L's proposed**  
6 **Rider AER-N?**

7 A18. I recommend the Commission not approve the proposed placeholder Rider AER-  
8 N as part of an ESP for the reasons set forth above. Alternatively, if the  
9 Commission approves a rider for recovery of the costs of Yankee 1, the  
10 Commission should order that the rider be bypassable for shopping customers to  
11 comply with the Ohio Revised Code requirements that prohibit a non-bypassable  
12 charge for recovery of the costs of renewable benchmark compliance.

13 **IV. DP&L'S FINANCIAL INTEGRITY CLAIMS**

14 **Q19. Besides your specific recommendations on the RR and Rider AER-N above,**  
15 **are there any other perspectives that you believe need to be considered by**  
16 **the Commission relative to the issues associated with the amount and**  
17 **nature of the charges requested by DP&L in this proceeding?**

18 A19. Yes, I believe that the recovery of charges in this case must also be considered  
19 in the context of an equity and fairness perspective. The larger picture in this  
20 proceeding includes DP&L's request for authorization of various mechanisms  
21 that will provide the EDU with cash-flow support associated with generation-  
22 related functions. In at least two instances (the SSR proposal, and the ST), the  
23 request for enhanced generation function-related cash flow takes the form of

1 earnings protection and revenue enhancements funded by shopping and non-  
2 shopping customers alike. The result is an anticompetitive subsidy flowing from  
3 non-competitive retail electric service to a competitive retail electric service  
4 through charges levied on DP&L's distribution customers. (The SSR and ST are  
5 addressed in more detail in the testimonies of IEU-Ohio witnesses Kevin Murray  
6 and J. Edward Hess). Based on advice from counsel, such an anticompetitive  
7 subsidy would violate Section 4928.02(H), Revised Code, and DP&L's corporate  
8 separation plan.

9 DP&L is advancing its ESP proposals based on a claim that it will experience  
10 financial problems that are associated with the generation business segment, in  
11 the form of low returns on equity, if the Commission does not approve these  
12 mechanisms to enhance earnings relative to what the earnings would be without  
13 these items.

14 However, my review of the supporting testimony and other documents submitted  
15 by DP&L did not identify any proactive consideration by DP&L of the abundant  
16 opportunities that it has had since January 1, 2001 to get its financial house in  
17 order. These opportunities include numerous rate increases, and very healthy  
18 returns on common equity, as discussed below.

19 **Q20. How do DP&L's claims regarding its future financial integrity relate to its**  
20 **profitability in recent years?**

21 A20. Exhibit JGB-4 provides the earned returns on equity ("ROE") for DP&L, on a total  
22 company basis, for the years 2001 through 2011. I calculated ROEs for each of  
23 these years by dividing net income before extraordinary items by the average

1 common equity balance for the year in question. For the years 2001–2011, the  
2 un-weighted average annual ROE of DP&L was 19.4%, which is substantially  
3 above the ROE range of 7.7% to 10.4% that DP&L Witness Chambers testifies  
4 would be reasonable. These historical ROEs suggest that consumers have  
5 already made significant and perhaps excessive contributions to DP&L's total  
6 company financial health. They also indicate the lack of symmetry in DP&L's  
7 current financial integrity claim. In effect, DP&L is claiming that it is entitled to  
8 both the opportunity to earn very high ROEs on a total company basis and to be  
9 protected against low total company ROEs related to the competitive generation  
10 business by an array of non-bypassable charges.

11 **Q21. Are the 2012 financial results for DP&L available?**

12 A21. The SEC 10-K report for the year ended December 31, 2012 was recently  
13 released and contained results for DP&L. DP&L reported net income of \$91.2  
14 million, and the average common equity was \$1.328.5 billion. The SEC report  
15 also indicated that in 2012, DP&L took an impairment charge, related to its  
16 generating units, of \$80.8 million transition cost recovery. The impairment  
17 charge effectively represents transition cost recovery, which, as IEU-Ohio  
18 witness Hess addresses in his testimony, may no longer be requested or  
19 collected. Therefore, to adjust DP&L's earnings to remove this impact, the after-  
20 tax impact of the impairment (approximately \$52.5 million) should be added back  
21 to net income. This results in net income of approximately \$143.7 million for  
22 2012, for an ROE of approximately 10.8%. Therefore, DP&L's earnings have  
23 continued to be strong, even in 2012, and DP&L paid common stock dividends to  
24 its parent company in 2012 in the amount of \$145 million.

1 **Q22. Are there other indicators of DP&L's strong financial performance?**

2 A22. Yes. Exhibit JGB-4 contains a summary of the common stock dividend  
3 payments by DP&L to its parent company for each year for the period 2001-  
4 2011. Dividends are paid out of retained earnings and therefore do not affect the  
5 computation of net income. Over the period 2001-2011, DP&L paid dividends on  
6 common stock to its parent company totaling \$2.26 billion, representing  
7 approximately 86% of DP&L's total net income over that period.

8 Further evidence of DP&L's financial strength is provided by its capital structure  
9 as published in its 2011 FERC Form 1, with a strong debt to total capital ratio of  
10 38.7% as of December 31, 2011. A debt to total capital ratio at this level is  
11 considered to be quite strong, signifying lower leverage and, all other things  
12 being equal, an opportunity to obtain debt financing at attractive interest rates.

13 **Q23. Has the Commission provided guidance on when relief may be appropriate**  
14 **based on concerns related to the financial integrity of the EDU?**

15 A23. Yes. Generally speaking, rate relief related to allegations of financial harm, such  
16 as DP&L is making in this case, is the type of rate relief that is addressed by the  
17 Commission in response to applications for emergency rate relief. The General  
18 Assembly also provided the Commission limited authority to address transition  
19 revenue claims arising from the enactment of Amended Substitute Senate Bill 3  
20 ("SB 3"). The Commission was provided with a limited window of time to permit  
21 electric utilities to recover transition revenue to address issues tangentially  
22 related to potential financial harm claims. After electric restructuring's market  
23 development period ended, the generation side of the business was on its own in



1 the competitive market. Mr. Hess's testimony addresses the Commission's role  
2 in setting transition revenue and the transition revenue claims that the  
3 Commission addressed at the request of DP&L in 2000 and thereafter.

4 **Q24. Does the Commission's authority to provide relief to meet financial**  
5 **integrity claims apply to the competitive side of an EDU's financial**  
6 **performance?**

7 A24. No. On the advice of counsel, Section 4909.16, Revised Code, applies only to  
8 the non-competitive side of an EDU's financial performance. This view is  
9 consistent with the Commission's determination that a company's earnings are  
10 not relevant when establishing generation rates.

11 In the Commission's Opinion and Order dated January 26, 2005 in Case No. 04-  
12 169-EL-UNC (Rate Stabilization Plan for Columbus Southern Power Company  
13 and Ohio Power Company), the Commission found that under Section  
14 4928.05(A)(1), Revised Code, generation rates are subject to the market and  
15 "company earnings levels would not come into play for establishing generation  
16 rates—market tolerances would otherwise dictate."<sup>1</sup>

17 **Q25. What criteria has the Commission applied to address a claim for additional**  
18 **revenue based on an allegation that an EDU needs Commission assistance**  
19 **to maintain financial integrity?**

20 A25. The Commission has developed long-standing criteria to determine when and  
21 how much rate relief may be appropriate to avoid a financial problem. These

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<sup>1</sup> *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of a Post-Market Development Period Rate Stabilization Plan, Case No. 04-169-EL-UNC, Opinion and Order at 18 (Jan. 26, 2005).*

1 factors were identified by the Commission in its Opinion and Order rejecting the  
2 emergency rate increase request of Akron Thermal, Limited Partnership in Case  
3 Nos. 09-453-HT-AEM, *et al.*

4 At pages 6 and 7 of the Opinion and Order, the Commission described the  
5 standards for reviewing applications for emergency rate relief as follows:

6 First, the existence of an emergency is a condition precedent to any  
7 grant of temporary rate relief. Second, the applicant's supporting  
8 evidence will be reviewed with strict scrutiny, and that evidence  
9 must clearly and convincingly demonstrate the presence of  
10 extraordinary circumstances that constitute a genuine emergency  
11 situation. Next, emergency relief will not be granted pursuant to  
12 Section 4909.16, Revised Code, if the emergency request is filed  
13 merely to circumvent, and as a substitute for, permanent rate relief  
14 under Section 4909.18, Revised Code. Finally, the Commission  
15 will grant temporary rate relief only at the minimum level necessary  
16 to avert or relieve the emergency.<sup>2</sup>

17 The Commission added that its determinations under each part of Section  
18 4909.16, Revised Code, are discretionary. The Commission went on to state  
19 that, as noted by the Supreme Court:

20 "the determination of whether an emergency exists, warranting a  
21 temporary alteration of rates, and the length of time such  
22 emergency rates shall remain in effect are within the judgment and  
23 sound discretion of the Public Utilities Commission." Therefore, in  
24 considering this emergency rate application, we must first answer  
25 the threshold question of whether an emergency exists that imperils  
26 the public utility. As we noted, if the public utility fails to sustain its  
27 burden of proof on this issue, the Commission's inquiry is at an  
28 end.<sup>3</sup>

29 **Q26. In your opinion, has DP&L satisfied the criteria for financial relief based on**  
30 **its claim that it needs additional revenue to maintain financial integrity?**

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<sup>2</sup> *In the Matter of the Application of Akron Thermal, Limited Partnership for an Emergency Increase in its Rates and Charges for Steam and Hot Water Service, Case Nos. 09-453-HT-AEM, et al., Opinion and Order at 6 (September 2, 2009).*

<sup>3</sup> *Id.* at 7.

1 A26. No. For several reasons, I conclude that DP&L's assertion that its financial  
2 integrity will be threatened if the Commission does not grant the requested relief  
3 fails to satisfy the procedural and substantive requirements for relief, based on  
4 the claim that its financial integrity is imperiled. First, on the advice of counsel,  
5 the Application's assertion of threatened financial integrity is not one which the  
6 Commission may consider or act upon unless and until the procedural and  
7 substantive requirements of Section 4909.16, Revised Code, (as applied by the  
8 Commission) are satisfied.

9 Second, DP&L has not identified the minimum level of financial support that is  
10 necessary to address the alleged financial problem or the extent to which the  
11 financial problem could have been avoided or mitigated through actions other  
12 than actions to increase electric rates. DP&L witness Chambers indicated at  
13 page 2 of his Second Revised Direct Testimony that a ROE range of 7.7% to  
14 10.4% is a reasonable ROE for DP&L to maintain its financial integrity, but he did  
15 not specify a minimum level of financial support that would avoid, as Mr.  
16 Chambers noted at page 1 of his testimony, a severe impact on DP&L's survival  
17 probability.

18 Third, DP&L has not demonstrated that the problems it is facing, if they exist, are  
19 anything other than a problem created by the choices that DP&L or its affiliates  
20 have made. In response to IEU-Ohio Interrogatory 3-1, which is attached to my  
21 testimony as Exhibit JGB-5, the Company indicated that it has performed  
22 analyses on potential cost savings measures from the reduction or elimination of  
23 expenses, but that it has not made any final decisions to act, because the

1 decisions would depend on many unknown and variable factors. DP&L has also  
2 indicated that it has conducted a privileged and confidential study to determine  
3 what expenses it could reduce in the event that the Commission does not  
4 approve its ESP as proposed.

5 In addition, it is my opinion that the financial support that DP&L is seeking for the  
6 benefit of the generation segment of its business circumvents the required  
7 division between competitive and non-competitive services, discussed further in  
8 the testimony of IEU-Ohio witness Kevin Murray, and conflicts with the customer  
9 choice objectives embedded in SB 3.

10 **Q27. Is there anything else you would like to discuss regarding potential**  
11 **expense savings by DP&L?**

12 A27. [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]

20 **Q28.** [REDACTED]  
21 [REDACTED]

1 A28. [REDACTED]  
2 [REDACTED]  
3 [REDACTED]

4 Q29. [REDACTED]  
5 [REDACTED]  
6 [REDACTED]

7 A29. [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]

14 Q30. [REDACTED]  
15 [REDACTED]  
16 [REDACTED]

17 A30. [REDACTED]  
18 [REDACTED]  
19 [REDACTED]

20 In summary, I believe it would be unjust and unreasonable for the Commission to  
21 approve proposals that raise rates, guarantee revenues and block customers  
22 from gaining access to suppliers offering lower electric bills based on generalized  
23 claims that DP&L (including its generation business, which, on the advice of

1 counsel, because it has been declared competitive, is generally not subject to the  
2 Commission's jurisdiction) will run into financial problems if the ESP proposed by  
3 DP&L is not approved as-filed with the Commission.

4 **V. RECOMMENDATIONS**

5 **Q31. Please summarize the specific recommendations contained in your**  
6 **testimony?**

7 A31. My recommendations are summarized below.

8 (1) Regarding DP&L's proposed RR, the Commission should deny DP&L's  
9 request to implement the RR as a non-bypassable charge.

10 (2) With respect to DP&L's proposed Rider AER-N, the Commission should  
11 not approve establishment of this rider, however, if it does so, it should  
12 require that this rider be implemented on a bypassable basis.

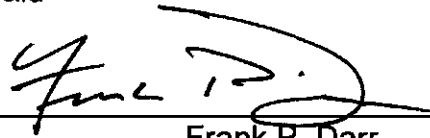
13 (3) I also recommend the Commission deny DP&L's proposals for Rider SSR  
14 and the ST, which serve to raise rates, guarantee revenues and impede  
15 customers from gaining access to suppliers offering lower electric bills,  
16 based on claims that DP&L's generation business will run into financial  
17 problems if the ESP proposed by DP&L is not approved as-filed with the  
18 Commission.

19 **Q32. Does this conclude your prepared direct testimony?**

20 A32. Yes. However, I reserve the right to update this testimony for any outstanding  
21 discovery responses or additional information that is submitted by other parties in  
22 this case.

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Joseph G. Bowser on Behalf of Industrial Energy Users-Ohio, Public Version*, was served upon the following parties of record this 1st day of March 2013, via electronic transmission, hand-delivery or first class mail, U.S. postage prepaid



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**CASES IN WHICH JOSEPH G. BOWSER HAS SUBMITTED TESTIMONY**

*In the Matter of the Application of The East Ohio Gas Company for Authority to Implement Two New Transportation Services, for Approval of a New Pooling Agreement, and for Approval of a Revised Transportation Migration Rider, Case No. 96-1019-GA-ATA*

*In the Matter of the Applications of Columbus Southern Power Company and Ohio Power Company for Approval of Their Electric Transition Plans and for Receipt of Transition Revenues, Case Nos. 99-1729-EL-ETP, et al.*

*In the Matter of the Commission's Investigation Into the Policies and Procedures of Ohio Power Company, Columbus Southern Power Company, The Cleveland Electric Illuminating Company, Ohio Edison Company, The Toledo Edison Company and Monongahela Power Company Regarding the Installation of New Line Extensions, Case Nos. 01-2708-EL-COI, et al.*

*In the Matter of the Application of Columbus Southern Power Company to Adjust its Power Acquisition Rider Pursuant to Its Post-Market Development Period Rate Stabilization Plan, Case No. 07-333-EL-UNC*

*In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals, Case Nos. 07-551-EL-AIR, et al.*

*In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan, and the Sale or Transfer of Certain Generating Assets, Case Nos. 08-917-EL-SSO, et al., including the remand phase of this proceeding*

*In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Case No. 08-935-EL-SSO*

*In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan, Case Nos. 08-1094-EL-SSO, et al.*

*In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company, Case No. 10-2929-EL-UNC*

*In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan, Case Nos. 11-346-EL-SSO, et al.*

*In the Matter of the Application of Akron Thermal, Limited Partnership for an Emergency Increase in its Rates And Charges for Steam and Hot Water Service, Case Nos. 09-453-HT-AEM, et al.*

**RESPONSES TO INTERROGATORIES**

INT-206, Referring to the ESP testimony of DP&L witness Dona Seger-Lawson, pages 12-13:

- A. Please indicate how much of the approximately \$2.5 million in capital investments will be associated with each of the six projects that will improve the interaction of CRES Providers with DP&L;

**RESPONSE:** Subject to all general objections, DP&L states that below is the preliminary estimate for the six projects:

No.	Enhancement	Preliminary Estimate	Internal Labor included in Preliminary Estimate
1	Eliminate the minimum stay and return-to-firm provisions in the generation tariffs.	\$19,000	\$5,000
2	Implement a web-based portal such that CRES Providers can obtain DP&L customer information in more usable and manageable fashion.	\$1,750,000	\$195,000
3	Implement an auto-cancel feature to our Bill-Ready billing function, such that when DP&L cancels its charges, it will also cancel the supplier charges on the bill. This change will eliminate customer confusion and ensure customer payments are posted to the account properly.	\$80,000	\$12,000
4	Remove the enrollment verification that requires a CRES Provider to have the first four characters of the customer name on the account as well as the correct account number.	\$600	\$100
5	Support Historical Interval Usage (HIU) data requests via EDI.	\$150,000	\$22,000
6	Provide CRES Providers a standardized sync list on a monthly basis to ensure that DP&L has identified the correct accounts that are served by each CRES Provider.	\$21,000	\$2,000

No.	Enhancement	Preliminary Estimate	Internal Labor included in Preliminary Estimate
	Subtotal	\$2,020,600	\$236,100
	Added contingency for unknowns such as external and internal labor expense rates, travel expense, added costs resulting from detailed design requirements, etc.	\$479,400	\$57,528
	Total Preliminary Estimate Costs	\$2,500,000	\$293,628

B. How were the amounts provided in (a) determined; and

**RESPONSE:** General Objections Nos. 2 (unduly burdensome) and 6 (calls for narrative answer). Subject to all general objections, DP&L states that preliminary estimates were determined by Centric Consulting and internal resources based on preliminary analysis and similar projects.

C. Please detail the capital investments included in the approximate cost of each project listed?

**RESPONSE:** General Objections Nos. 2 (unduly burdensome) and 6 (calls for narrative answer). Subject to all general objections, DP&L states that all costs included in the preliminary estimate are capital investment costs.

**PERSON RESPONSIBLE:** Kathy Hatton

**ESP INT 5-3** Under what Section(s) of Chapter 49, Revised Code, is DP&L seeking authorization of the Reconciliation Rider ("RR")?

**RESPONSE:** General Objections Nos. (unduly burdensome) and 3 (privileged and work product); in addition, this interrogatory calls for a legal conclusion. Subject to all general objections, DP&L states that it has filed an electric security plan (ESP) under the provisions of Ohio Revised Code § 4928.143, and is seeking authority under that section to implement the Reconciliation Rider. DP&L further states that the RR may be recoverable under other Sections of the Ohio Revised Code, and reserves its right to seek recovery under those sections.

**WITNESS RESPONSIBLE:** None.

**ESP INT 5-4** Based on your response to the prior interrogatory, in what manner does the RR satisfy the terms of that (those) Section(s)? Please provide a detailed explanation with references to the Section(s) of the Ohio Revised Code that supports your response.

**RESPONSE:** General Objections Nos. (unduly burdensome) and 3 (privileged and work product); in addition, this interrogatory calls for a legal conclusion. DP&L further objects because it has no obligation to provide a "detailed explanation" of its legal arguments in an interrogatory response. Subject to all objections, DP&L states that the RR constitutes a provision relating to the supply and pricing of electric generation service pursuant to § 4928.143(B)(1); provides for the automatic recovery of the following costs: the cost of fuel used to generate the electricity supplied under the offer; the cost of purchased power supplied under the offer, including the cost of energy and capacity, and including purchased power acquired from an affiliate; the cost of emission allowances; and the cost of federally mandated carbon or energy taxes, pursuant to § 4928.143(2)(a); constitutes a term, condition, or charge relating to limitations on customer shopping for retail electric generation service, bypassability, standby, back-up, or supplemental power service, default service, carrying costs, amortization periods, and accounting or deferrals, including future recovery of such deferrals, as would have the effect of stabilizing or providing certainty regarding retail electric service, pursuant to § 4928.143(B)(2)(d); provides for automatic increases or decreases in any component of the standard service offer price, pursuant to § 4928.143(B)(2)(e); includes provisions relating to transmission, ancillary, congestion, or any related service required for the standard service offer, including provisions for the recovery of any cost of such service that the electric distribution utility incurs on or after that date pursuant to the standard service offer, pursuant to § 4928.143(B)(2)(g); and includes provisions regarding the utility's distribution service and provisions regarding single issue ratemaking, a revenue decoupling mechanism or any other

incentive ratemaking, and provisions regarding distribution infrastructure and modernization incentives for the electric distribution utility. DP&L further states that the RR may be recoverable under other Sections of the Ohio Revised Code, and reserves its right to seek recovery under those sections.

**WITNESS RESPONSIBLE: None.**

2 Returns on Equity

3	<u>Year</u>	<u>DP&amp;L</u>	
4	2011	14.1%	
5	2010	20.0%	
6	2009	18.0%	
7	2008	20.1%	
8	2007	20.9%	
9	2006	21.0%	
10	2005	20.1%	
11	2004	19.0%	
12	2003	17.1%	
13	2002	21.0%	
14	2001	21.7%	
15		19.4%	2001-2011 Average unweighted ROE

16		<u>Dividends on</u>		<u>Ratio of common</u>
17		<u>Common Stock</u>	<u>Net Income</u>	<u>stock dividends</u>
18		(Thousand of Dollars)		<u>to net income</u>
19	2011	\$220,000	\$193,215	113.9%
20	2010	\$300,000	\$277,674	108.0%
21	2009	\$325,000	\$258,827	125.6%
22	2008	\$155,000	\$285,788	54.2%
23	2007	\$125,000	\$271,580	46.0%
24	2006	\$100,000	\$242,434	41.2%
25	2005	\$150,000	\$214,943	69.8%
26	2004	\$299,928	\$209,062	143.5%
27	2003	\$298,669	\$197,683	151.1%
28	2002	\$204,470	\$243,481	84.0%
29	2001	\$82,415	\$234,231	35.2%
30	Total	\$2,260,482	\$2,628,918	86.0%

31 Sources: Dividends per page 118 of annual FERC Form 1s

32 Returns on Equity calculated as net income before extraordinary  
 33 items divided by average proprietary capital  
 34 net of any preferred stock, per pages  
 35 112 and 117 of annual FERC Form 1s



**RESPONSES TO INTERROGATORIES**

**ESP INT. 3-1:** Since the acquisition of DPL by AES, has DP&L, DPL, or AES performed any analysis, study, and/or made any recommendations of potential cost savings measures or revenue enhancements for DP&L?

**RESPONSE:** General Objections Nos. 1 (relevance), 4 (proprietary), and 10 (possession of DP&L's unregulated affiliate). DP&L further objects because DPL and AES are not subject to discovery in this matter. Subject to all general objections, DP&L states: Yes.

A. If the answer is affirmative, what were those cost savings measures or revenue enhancements?

**RESPONSE:** General Objection Nos. 1 (relevance), 2 (unduly burdensome), and 3 (privileged and work product). DP&L further objects because DP&L has not made any final decisions relating to reducing or eliminating expenses, and any decisions would depend on many unknown and variable factors including the results of this proceeding. DP&L's analysis of potential expense reductions constitutes protected work product, because that analysis depends upon DP&L's analysis of and expectations regarding the likely results of this proceeding; DP&L thus objects to providing the analysis that it has performed regarding potential expense reductions. DP&L has not made decisions relating to reduction or elimination of expenses and any such decisions must await the results of this case; DP&L cannot speculate as to what expense adjustments might be forced upon it. Subject to all general objections, DP&L states that its ability to reduce expenses is limited by various factors, including the requirements that DP&L comply with reliability and safety standards, and the fact that co-owners of certain of its generation assets have certain rights to operate those assets.

- B. If the answer is affirmative, identify any documents containing such analysis, study, and/or recommendation.

**RESPONSE:** General Objection Nos. 1 (relevance), 2 (unduly burdensome), and 3 (privileged and work product). DP&L further objects because DP&L has not made any final decisions relating to reducing or eliminating expenses, and any decisions would depend on many unknown and variable factors including the results of this proceeding. DP&L's analysis of potential expense reductions constitutes protected work product, because that analysis depends upon DP&L's analysis of and expectations regarding the likely results of this proceeding; DP&L thus objects to providing the analysis that it has performed regarding potential expense reductions. DP&L has not made decisions relating to reduction or elimination of expenses and any such decisions must await the results of this case; DP&L cannot speculate as to what expense adjustments might be forced upon it.

- C. If the answer is affirmative, identify when the analysis, study, and/or recommendation was made.

**RESPONSE:** General Objections Nos. 1 (relevance), 4 (proprietary), and 10 (possession of DP&L's unregulated affiliate). DP&L further objects because DPL and AES are not subject to discovery in this matter. Subject to all general objections, DP&L states that please see response to part A above.

- D. If the answer is affirmative, identify when the cost saving measures and/or revenue enhancements were made, or are planned to be implemented.

**RESPONSE:** General Objections Nos. 1 (relevance), 4 (proprietary), and 10 (possession of DP&L's unregulated affiliate). DP&L further objects because DPL and AES are not subject to discovery in this matter. Subject to all general objections, DP&L states that please see response to part A above.

- E. If the answer is affirmative, what is the amount of the expected cost savings or revenue enhancement?

**RESPONSE:** General Objections Nos. 1 (relevance), 4 (proprietary), and 10 (possession of DP&L's unregulated affiliate). DP&L further objects because DPL and AES are not subject to discovery in this matter. Subject to all general objections, DP&L states that please see response to part A above.

- F. If the answer is negative, explain why such analysis or study has not been undertaken.

**RESPONSE:** General Objections Nos. 1 (relevance), 2 (unduly burdensome), 4 (proprietary), 6 (calls for narrative answer), and 10 (possession of DP&L's unregulated affiliate). DP&L further objects because DPL and AES are not subject to discovery in this matter. Subject to all general objections, DP&L states not applicable.

**WITNESS RESPONSIBLE:** Craig Jackson