

FILE

**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 the 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

**REDACTED**

**PREFILED TESTIMONY  
OF  
SHAHID MAHMUD  
CAPITAL RECOVERY AND FINANCIAL ANALYSIS DIVISION  
UTILITIES DEPARTMENT  
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit \_\_\_\_\_

March 11, 2013

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

2 A. My name is Shahid U. Mahmud. My business address is 180 East Broad  
3 Street, Columbus, OH 43215.

4

5 2. Q. By who are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio.

7

8 3. Q. What is your current position with the Public Utilities Commission of Ohio  
9 and what are your duties?

10 A. My current position is Senior Utility Specialist in the Capital Recovery and  
11 Financial Analysis Division of the Utilities Department. My duties include  
12 processing: (1) applications to issue securities, (2) applications for  
13 certifications of providers of Competitive Retail Electric and Gas Service  
14 (3) applications for emergency rate increases, (4) application to increase  
15 rates, (5) applications for transfer of assets, (6) applications to issue bonds  
16 to securitize certain types of deferred assets, and (7) participating in other  
17 inter-divisional reviews and projects.

18

19 4. Q. Would you briefly state your educational background and work experience?

20 A. I have an undergraduate degree in Accounting and a Masters Degree in  
21 Business Management from the University of Chittagong, Bangladesh. I  
22 have a Masters Degree in Business Administration (International Business)

1 from the Ohio State University, Columbus, Ohio and a Masters Degree in  
2 Development Studies (International Affairs) from Ohio University, Athens,  
3 Ohio. I have been awarded the professional designation “Certified Rate of  
4 Return Analysts” (“CRRA”) by the Society of Utility and Regulatory  
5 Financial Analysts. This designation is based upon education, experience  
6 and the successful completion of a comprehensive written examination.

7  
8 I was employed by this Commission as a Utility Rate Analyst in the  
9 Performance Analysis Division of the Utilities Department in May 1990  
10 and became a Utility Rate Analyst Coordinator in September 1996. In  
11 February 1999, I became a Utility Specialist in the Electricity Division. In  
12 December 2008, I became a Senior Utility Specialist in the Capital  
13 Recovery and Financial Analysis Division. During the course of my  
14 employment with PUCO, I have undergone several training courses and  
15 have attended many utility regulatory seminars and conferences.

16  
17  
18 5. Q. What are your responsibilities in this proceeding?

19 A. My responsibility in this proceeding is to provide two estimates of a  
20 Service Stability Rider (SSR) charge for a period of three years (2013 –  
21 2015) which will result in an average Return on Equity (ROE) for DP&L  
22 (Company) for the Commission to consider. My estimates for the SSR are

1 based on: 1) an average ROE of [REDACTED] - per the Company's application as  
2 filed in company witness Craig Jackson's Second Revised Exhibit, CLJ-2,  
3 and 2) an average ROE of 7% - a rate deemed in the range of  
4 reasonableness per the Commission's Opinion and Order in Case No. 11-  
5 346-EL-SSO.

6  
7 6. Q. What methodology have you used to arrive at your calculated ROE?

8 A. Before addressing the issue of the determination of the projected ROEs for  
9 the Company I will have to address the methodology I have used to arrive  
10 at that determination. I have adopted the Second Revised WJC-3.B  
11 presented by Company witness William J. Chambers (Dr. Chambers).  
12 WJC-3.B starts with CLJ-2, (presented by Company witness Craig L.  
13 Jackson) and it applies a pro forma debt adjustment, and removes the  
14 switching tracker. Dr. Chambers' Second Revised schedules marked as  
15 WJC-3.A and WJC-3.B are the basis for my calculation of the projected  
16 ROE. These two schedules were based on the Pro Forma Debt Adjustment  
17 scenario with No Switching Tracker but with an estimated annual SSR. I  
18 have applied the adjustments recommended by Staff witness Timothy  
19 Benedict on the wholesale side, and I then removed all financial projections  
20 in years four and five to be consistent with Staff witness Choueiki  
21 recommendation of a three-year Electric Security Plan (ESP).

22

1 7. Q. What is your projected ROE?

2 A. I have estimated an annual SSR of \$133 million to arrive at the targeted  
3 ROE of [REDACTED] I also have estimated an annual SSR of \$151 million to  
4 arrive at the targeted ROE of 7% - a rate that was deemed to be in the range  
5 of reasonableness per the Commission's Opinion and Order in Case No. 11-  
6 346-EL-SSO. These two ROEs were developed using an adjusted version  
7 of the ROE in which the shareholders' equity as the denominator, is  
8 changed to average shareholders' equity which reflects the DP&L's  
9 performance over a fiscal year. ROEs calculated this way provides a better  
10 depiction of the Company's corporate profitability where the value of the  
11 shareholders' equity changes during each of the fiscal years as projected in  
12 Staff Exhibit SUM -1 and Staff Exhibit SUM -3. Based on my calculation  
13 the Staff estimated ROE projections for the years 2013 through 2015 with  
14 the Pro forma Debt Adjustment and no Switching Tracker are as follows:

15  
16 An annual SSR of \$133 million for three years results in ROE projections  
17 of the following: [REDACTED] (2013); [REDACTED] (2014); and [REDACTED] (2015). These  
18 will result in an average ROE of [REDACTED]

19  
20 An annual SSR of \$151 million for three years results in ROE projections  
21 of the following:

1 ■ (2013); ■ (2014); and ■ (2015). These will result in an  
2 average ROE of 7%.

3  
4 8. Q. How have you arrived at such ROE?

5 A. I have incorporated adjustments made by the Staff to certain items in my  
6 calculation of the Projected Statement of Income as adjusted shown as Staff  
7 Exhibits SUM-2 and SUM-4. In those two exhibits I have incorporated the  
8 Staff witness Benedict's adjustments to annual General Revenue, Fuel Cost,  
9 and Dispatch Cost. I then calculated the estimated SSR to achieve the  
10 targeted ROEs which are shown in Staff Exhibit SUM-1 and SUM-3. The  
11 resultant ROEs are based on Pro Forma debt adjustments which utilize a  
12 capitalization structure based on the industry norm. If the Commission  
13 finds that the Company requires a payment to preserve its financial  
14 integrity, I recommend that the Commission grant the Company an annual  
15 SSR charge of \$133 million for a period of three years. This charge is  
16 based on a targeted average ROE of ■ over the three-year ESP period.  
17 In the event the Commission opts for a higher than the "as filed" average  
18 ROE of ■ requested by the Company, I recommend an average ROE of  
19 no more than 7% over the three-year ESP period. This would then translate  
20 to an average annual SSR of \$151 million for a three-year period. In both  
21 the above scenarios the debt to equity ratio has been adjusted to  
22 approximately 50/50.

1 9. Q. Do you think that your targeted ROEs will ensure financial integrity and  
2 capital attraction for DP&L?

3 A. This is a question for the Commission to decide. I do not have an opinion  
4 but can provide some factors that Commission should weigh. A company's  
5 financial integrity includes among other things its business and financial  
6 risks. Business risks include considerations such as industry risk, a  
7 company's competitive position in the market, its profitability, and  
8 regulatory risk. Financial risks include factors such as capital structure  
9 leverage, cash flow, profitability, and liquidity. DP&L's financial integrity  
10 must be assessed in the context of its risks and uncertainties associated with  
11 the Company's performance for the years to come. ROE is one of the  
12 important elements but not the only one for the analysis and evaluation of  
13 the financial integrity of a company. A company's financial integrity is  
14 also related to its overall credit ratings. DP&L's credit rating in April 2012  
15 was considered to be 'investment grade' level indicating a high level of  
16 creditworthiness and low likelihood of default. However, in November  
17 2012, S&P lowered the Company's credit rating two notches from BBB- to  
18 BB which is a non-investment grade and indicates a weak business. DP&L  
19 is currently at risk of a possible overall downgrade, as the Moody's and  
20 Fitch rating agencies issued a 'negative watch' for the Company in  
21 November 2012. These referenced credit ratings apply to DP&L's long-  
22 term senior unsecured debt. A company's ROE is one of the criteria that

1 the rating agencies review, among other things including coverage ratios,  
2 when determining a credit rating. No single factor or ratio necessarily  
3 determines the ultimate credit rating. As such, using just the projection of  
4 ROE alone can not answer the question whether such ROE will ensure the  
5 financial integrity and capital attraction for DP&L.

6 10. Q. Has Staff investigated the relationship between DP&L and its affiliates?

7 A. Staff does not have enough information to come to a specific conclusion  
8 on inappropriate relationships with affiliates, but is concerned as to the  
9 relationship between regulated and unregulated entities.

10 11. Q. Does this conclude your testimony?

11 A. Yes, it does. However, I reserve the right to submit supplemental testi-  
12 mony as described herein, as new information subsequently becomes avail-  
13 able or in response to positions taken by other parties.



## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Victor P. Gallina, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties listed below, this 11<sup>th</sup> day of March, 2013.

/s/ Thomas W. McNamee

**Thomas W. McNamee**  
Assistant Attorney General

### Service List:

[cmooney@ohiopartners.org](mailto:cmooney@ohiopartners.org)  
[judi.sobecki@dplinc.com](mailto:judi.sobecki@dplinc.com)  
[sam@mwncmh.com](mailto:sam@mwncmh.com)  
[fdarr@mwncmh.com](mailto:fdarr@mwncmh.com)  
[mpritchard@mwncmh.com](mailto:mpritchard@mwncmh.com)  
[joliker@mwncmh.com](mailto:joliker@mwncmh.com)  
[amy.spiller@duke-energy.com](mailto:amy.spiller@duke-energy.com)  
[jeanne.kingery@duke-energy.com](mailto:jeanne.kingery@duke-energy.com)  
[bmcMahon@emh-law.com](mailto:bmcMahon@emh-law.com)  
[elizabeth.watts@duke-energy.com](mailto:elizabeth.watts@duke-energy.com)  
[rocco.dascenzo@duke-energy.com](mailto:rocco.dascenzo@duke-energy.com)  
[stephanie.chmi@thompsonhine.com](mailto:stephanie.chmi@thompsonhine.com)  
[philip.sineneng@thompsonhine.com](mailto:philip.sineneng@thompsonhine.com)  
[michael.dillard@thompsonhine.com](mailto:michael.dillard@thompsonhine.com)  
[matt@matthewcoxlaw.com](mailto:matt@matthewcoxlaw.com)  
[bojko@carpenterlipps.com](mailto:bojko@carpenterlipps.com)  
[sechler@carpenterlipps.com](mailto:sechler@carpenterlipps.com)  
[bill.wells@wpafb.af.mil](mailto:bill.wells@wpafb.af.mil)  
[chris.thompson.2@tyndall.af.mil](mailto:chris.thompson.2@tyndall.af.mil)  
[gmeyer@consultbai.com](mailto:gmeyer@consultbai.com)  
[cfaruki@ficlaw.com](mailto:cfaruki@ficlaw.com)  
[jsharkey@ficlaw.com](mailto:jsharkey@ficlaw.com)  
[mwhite@igsenergy.com](mailto:mwhite@igsenergy.com)  
[christopher.miller@icemiller.com](mailto:christopher.miller@icemiller.com)  
[gregory.dunn@icemiller.com](mailto:gregory.dunn@icemiller.com)  
[chris.michael@icemiller.com](mailto:chris.michael@icemiller.com)  
[trent@theoec.org](mailto:trent@theoec.org)

[dboehm@bkllawfirm.com](mailto:dboehm@bkllawfirm.com)  
[mkurtz@bkllawfirm.com](mailto:mkurtz@bkllawfirm.com)  
[jkyler@bkllawfirm.com](mailto:jkyler@bkllawfirm.com)  
[myurick@taftlaw.com](mailto:myurick@taftlaw.com)  
[zkravitz@taftlaw.com](mailto:zkravitz@taftlaw.com)  
[whitt@whitt-sturtevant.com](mailto:whitt@whitt-sturtevant.com)  
[campbell@whitt-sturtevant.com](mailto:campbell@whitt-sturtevant.com)  
[mhpetricoff@vorys.com](mailto:mhpetricoff@vorys.com)  
[smhoward@vorys.com](mailto:smhoward@vorys.com)  
[ssherman@kdlegal.com](mailto:ssherman@kdlegal.com)  
[jhague@kdlegal.com](mailto:jhague@kdlegal.com)  
[mwarnock@bricker.com](mailto:mwarnock@bricker.com)  
[tsiwo@bricker.com](mailto:tsiwo@bricker.com)  
[tony\\_long@ham.honda.com](mailto:tony_long@ham.honda.com)  
[asim\\_haque@ham.honda.com](mailto:asim_haque@ham.honda.com)  
[haydenm@firstenergycorp.com](mailto:haydenm@firstenergycorp.com)  
[jlang@calfee.com](mailto:jlang@calfee.com)  
[lmcbride@calfee.com](mailto:lmcbride@calfee.com)  
[talexander@calfee.com](mailto:talexander@calfee.com)  
[jejadwin@aep.com](mailto:jejadwin@aep.com)  
[gpoulos@enernoc.com](mailto:gpoulos@enernoc.com)  
[ricks@ohanet.org](mailto:ricks@ohanet.org)  
[cmooney2@columbus.rr.com](mailto:cmooney2@columbus.rr.com)  
[tobrien@bricker.com](mailto:tobrien@bricker.com)  
[vparisi@igsenergy.com](mailto:vparisi@igsenergy.com)  
[cathy@theoec.org](mailto:cathy@theoec.org)  
[joseph.clark@directenergy.com](mailto:joseph.clark@directenergy.com)

[mchristensen@columbuslaw.org](mailto:mchristensen@columbuslaw.org)  
[stnourse@aep.com](mailto:stnourse@aep.com)  
[ssolberg@eimerstahl.com](mailto:ssolberg@eimerstahl.com)  
[stephen.bennett@exeloncorp.com](mailto:stephen.bennett@exeloncorp.com)  
[cynthia.brady@constellation.com](mailto:cynthia.brady@constellation.com)

[dakutik@jonesday.com](mailto:dakutik@jonesday.com)  
[aehaedt@jonesday.com](mailto:aehaedt@jonesday.com)  
[ejacobs@ablelaw.org](mailto:ejacobs@ablelaw.org)  
[mjsatterwhite@aep.com](mailto:mjsatterwhite@aep.com)