

**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION OF OHIO**  
**THE DAYTON POWER AND LIGHT COMPANY**

**CASE NO. 12-426-EL-SSO**

**CASE NO. 12-427-EL-ATA**

**CASE NO. 12-428-EL-AAM**

**CASE NO. 12-429-EL-WVR**

**CASE NO. 12-672-EL-RDR**

**ELECTRIC SECURITY PLAN (ESP)**  
**REBUTTAL AND SUPPLEMENTAL TESTIMONY**  
**OF R. JEFFREY MALINAK**

- ☐ **MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION**
- ☐ **OPERATING INCOME**
- ☐ **RATE BASE**
- ☐ **ALLOCATIONS**
- ☐ **RATE OF RETURN**
- ☐ **RATES AND TARIFFS**
- ☒ **OTHER**

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R. JEFFREY MALINAK  
  
ON BEHALF OF  
THE DAYTON POWER AND LIGHT COMPANY

<i>I. Introduction.....</i>	<i>2</i>
<i>II. “More Favorable in the Aggregate” Test.....</i>	<i>4</i>
<i>A. Intervenor and Staff Witness Claims that the Service Stability Rider (SSR) and Switching Tracker (ST) Should Not be Included in the Hypothetical MRO.....</i>	<i>4</i>
<i>B. Recommended Adjustments to the Time Period of Analysis Would Understate ESP Benefits.....</i>	<i>10</i>
<i>C. Recommended Adjustment to the Blend Rates Was Not Warranted and Is Now Moot.....</i>	<i>11</i>
<i>D. Other Errors .....</i>	<i>12</i>
<i>III. Financial Integrity and Financial Condition of DP&amp;L.....</i>	<i>15</i>
<i>A. DPLER Margins / Transfer Pricing.....</i>	<i>15</i>
<i>B. Purpose of SSR.....</i>	<i>16</i>
<i>C. ROE and Financial Integrity.....</i>	<i>18</i>

**I. Introduction**

**Q. Please state your name and address.**

A. My name is R. Jeffrey Malinak. I reside at 10723 Normandie Farm Dr., Potomac, Maryland, 20854. I am currently a Managing Principal in the Washington, D.C. office of Analysis Group, Inc., a national economic and financial consulting services firm.

**Q. Did you file direct testimony in this case?**

A. Yes. I previously provided direct testimony in which I assessed whether DP&L's ESP was "more favorable in the aggregate" than a hypothetical MRO (referred to here as "MFIA" or the "MFIA Test").<sup>1</sup> As part of this testimony, I necessarily also analyzed the relative impact of the proposed ESP and hypothetical MRO on DP&L's financial integrity, relying in part on the testimony of DP&L Witness William Chambers. My prefiled direct testimony contains information on my qualifications and other relevant background information.

**Q. Have you testified at the hearing in this matter?**

A. Yes. I recently appeared before the Attorney Examiners appointed by the PUCO in this matter to provide additional testimony under cross examination. In that live testimony, I addressed both the MFIA Test and certain issues related to the financial condition of DP&L under the ESP and hypothetical MRO.

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<sup>1</sup> For ease of reference, "MFIA Test" will be used to refer to the overall test, including both the quantitative and non-quantitative aspects, while "Aggregate Price Test" will be used to refer to the quantitative aspects only, including the statutory price test and other quantifiable costs or benefits.

1    **Q.    Are you providing rebuttal testimony?**

2    A.    Yes. I am providing rebuttal testimony related to the assessment of whether DP&L's  
3       ESP was "more favorable in the aggregate" than a hypothetical MRO.

4    **Q.    Are you providing supplemental testimony?**

5    A.    Yes. I have been asked by counsel to provide supplemental testimony regarding certain  
6       financial integrity and rate of return issues that were addressed in my pre-filed direct  
7       testimony, the pre-filed direct testimony of Witness Chambers, and the pre-filed direct  
8       testimony of several Intervenor and Staff witnesses. In addition, many of these issues  
9       were raised during my testimony at the hearing in this matter, as well as during the  
10       hearing testimony of other Intervenor, Staff and DP&L witnesses.

11   **Q.    Please describe your qualifications to provide testimony on rates of return or the**  
12       **financial integrity or financial condition of DP&L under various rate plans.**

13   A.    Primary areas of expertise required for an assessment of rates of return and the financial  
14       integrity or financial condition of a company are finance and accounting. These are my  
15       primary areas of expertise, beginning with my concentration in those two fields as part of  
16       my Master's degree, and then continuing with their development throughout my  
17       approximately 25-year career in economic and financial consulting. Virtually every  
18       project that I have worked on in my career has required at least some application of  
19       finance or accounting, and many of my projects have required expertise primarily in one  
20       or the other of these disciplines. In addition, I have worked on at least five projects over  
21       the last ten years that I can recall in which the financial integrity and credit worthiness of

1 a company was the primary issue. Indeed, the investigation of the causes and costs of  
2 financial distress and the analysis of its impact on corporations and other economic  
3 entities is a fertile area for financial research and one that I have followed closely off and  
4 on over the years (usually in connection with a new project in the area).

5 In addition, I have addressed cost of capital and rate of return issues on a large number of  
6 occasions in my career, including on several matters in a regulatory setting. The most  
7 recent such matter, involving South Carolina Gas & Electric, is listed on my resume. I  
8 also have co-authored an article in the Litigation Services Handbook titled, "Estimating  
9 the Cost of Capital."

10 While my consulting activities have given me the opportunity to study the economic and  
11 financial characteristics of a wide variety of industries, the industry sector on which I have  
12 spent the most time in my career is the energy and utility sector due primarily to my focus  
13 in that area during my approximately six years at Putnam, Hayes and Bartlett, Inc.

14 **II. "More Favorable in the Aggregate" Test**

15 **A. Intervenor and Staff Witness Claims that the Service Stability**  
16 **Rider (SSR) and Switching Tracker (ST) Should Not be Included**  
17 **in the Hypothetical MRO**

18

1 Q. Are there other quantifiable or non-quantifiable costs or benefits that would need to  
2 be considered under a hypothetical scenario in which DP&L filed an MRO without  
3 an SSR or ST?

4 A. Yes. If the PUCO decides that all financial integrity-based non-bypassable charges such  
5 as the SSR and ST must be excluded from the hypothetical MRO under the Aggregate  
6 Price Test, then DP&L would be operating under a highly financially compromised  
7 position in that hypothetical world, especially if DP&L experiences increased switching  
8 as expected. Indeed, the proposed SSR and ST essentially account for all of DP&L's  
9 projected after-tax net income from 2013 to 2017 [REDACTED] based on Chambers  
10 Exhibit WJC-2.<sup>2</sup> Together, removing the SSR and ST in the presence of additional  
11 switching would eliminate all of this after-tax net income, even after accounting for  
12 increased bypassable revenues under an MRO, as shown in the following approximate  
13 calculation of changes relative to the projected profits under an ESP:

	<u>\$ Millions</u>
14	
15	
16 Pre-Tax Reduction from Removing the SSR (from WJC-2)	[REDACTED]
17 Estimated Pre-Tax Reduction from Higher Switching Without	
18 a ST	[REDACTED]
19	
20 Pre-Tax Increase From Higher Rates under the MRO	[REDACTED] <sup>3</sup>
21	
22 Total Pre-Tax Income Reduction Under an MRO Including	
23 Removing the SSR and ST and with Higher Switching	[REDACTED]
24	
25 Taxes (at 35.8% combined state and Federal)	[REDACTED]
26	
27 Total After-Tax Reduction to Net Income	[REDACTED]

<sup>2</sup> This observation assumes that additional switching will occur beyond current levels.

<sup>3</sup> Calculated as [REDACTED] from RJM-1, minus [REDACTED] for the AER-N and [REDACTED] for the retail enhancements. See Second Revised Testimony of R. Jeffrey Malinak.

1 Thus, under an MRO without the SSR or ST, and using DP&L's "as-filed" additional  
2 switching assumptions, DP&L's total after-tax net income for the entire 5-year period  
3 would be negative [REDACTED], a decline of over [REDACTED]  
4 This amount of net income would translate into an approximate average ROE of negative  
5 [REDACTED] over the five-year period, and would result in negative Net Income and ROE  
6 in all years.

7 Under these circumstances, the company would face substantial costs associated with  
8 managing the associated financial distress. In addition, management attention would be  
9 diverted toward managing the adverse financial condition of DP&L, rather than focusing  
10 on initiatives aimed at improving safety, service, performance and reliability. Financial  
11 costs also would be imposed, as the Company would be forced to meet short-term and  
12 long-term obligations with significantly diminished credit quality.

13 **Q. Did any witnesses present scenarios in which the MRO included an SSR or other**  
14 **non-bypassable charge (NBC)?**

15 **A.** Yes. Witness Murray and Staff Witness Turkenton both included scenarios in which they  
16 assumed that the ST would not be available under an MRO, but that a NBC equal in  
17 amount to DP&L's current Rate Stability Charge (RSC) would be included in the  
18 hypothetical MRO. The RSC they both assume is approximately \$73 million.

**Q. Have you analyzed DP&L's return on equity and financial condition under a hypothetical MRO without a ST but with an NBC of \$73 million?**

**A. Yes. Again using DP&L's "as-filed" assumption regarding the amount of additional switching, including the reduced NBC of \$73 million versus the \$137.5 million that I assume would result in a significant reduction in DP&L's net income and ROE relative to the "as-filed" case, even after adjusting for the increased SSO revenue under the MRO. The reduction can be approximated as follows:**

	<u>\$ Millions</u>
Pre-Tax Reduction from Reducing the SSR	██████████
Estimated Pre-Tax Reduction from Higher Switching Without a ST	██████████
Pre-Tax Increase From Higher Rates under the MRO	██████████ <sup>4</sup>
Total Pre-Tax Income Reduction Under an MRO Including Removing the SSR and ST and with Higher Switching	██████████
Taxes (at 35.8% combined state and Federal)	██████████
<b>Total After-Tax Reduction to Net Income</b>	██████████

This ██████████ reduction in Net Income over five years would reduce the average ROE over this period to just ██████████, which is well below the reasonable range that I determine below. Under these circumstances, DP&L would be under financial stress that would generate significant non-quantifiable costs under the MRO, albeit lower such costs than if the NBC/SSR is excluded from the MRO in its entirety.

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<sup>4</sup> Calculated as ██████████ from RJM-1, minus ██████████ AER-N and ██████████ for the retail enhancements. See Second Revised Testimony of R. Jeffrey Malinak.



**1       Q.     Did Intervenor Witnesses Hixon, Ruch and Murray, and Staff Witness**  
**2       Turkenton consider these large difficult-to-quantify costs of financial distress under**  
**3       an MRO as part of their analysis of the MFIA Test?**

**4     A.     No. None of them has considered the large difficult-to-quantify costs of the financial**  
**5             distress that DP&L would experience under a hypothetical MRO without either the SSR**  
**6             or ST. Nor did Witnesses Murray or Turkenton consider the potential costs of financial**  
**7             distress under their other MRO scenarios that assume no ST and a reduced non-**  
**8             bypassable charge.**

**9             Put another way, these witnesses have performed their Aggregate Price Tests based on**  
**10            hypothetical MRO scenarios that are unrealistic. This is because DP&L presumably**  
**11            would not propose an MRO that would result in severe financial distress nor, presumably,**  
**12            would the PUCO approve such an MRO. Thus, these witnesses' methodology makes**  
**13            little sense from a sound regulatory and economic standpoint, since it sets the standard**  
**14            for an ESP at an unrealistic level.**

**15            In sum, the MFIA analyses of the witnesses listed above cannot be relied upon as a basis**  
**16            for determining whether the ESP is more favorable in the aggregate, when one considers**  
**17            both quantifiable and difficult-to-quantify or non-quantifiable costs and benefits.**

**18    Q.     How would one go about taking the issue of financial integrity under the MRO into**  
**19             consideration when performing the MFIA Test?**

**20    A.     One reasonable approach is to hold financial integrity essentially constant, as I did in my**  
**21             analysis by assuming that DP&L would have asked for a non-bypassable SSR and ST or**

1 similar NBCs under the hypothetical MRO as it has under the ESP. As noted in my  
2 previously filed direct testimony, this assumption meant that DP&L's level of financial  
3 integrity would have been slightly better under the MRO than under the ESP, but still  
4 would have been towards the low end of the acceptable range that I define below. Thus, I  
5 concluded that it was reasonable to assume that DP&L would have filed for the same  
6 level of SSR under the MRO as under the ESP. Indeed, my analysis indicated that DP&L  
7 could have asked for a higher SSR under the ESP than it actually did and still would not  
8 have been earning excessive returns.

9 Another approach would be to assume, as do the Intervenor and Staff Witnesses cited  
10 above, that the SSR and ST would not be available or would be reduced under an MRO.  
11 In that case, one would need to consider the large difficult-to-quantify costs of the  
12 financial distress DP&L would experience under the hypothetical MRO. In my opinion,  
13 a proper consideration of these costs still would lead one to the conclusion that the ESP is  
14 more favorable in the aggregate. This logic is consistent with the PUCO's decision in the  
15 AEP case, in which it concluded that the ESP was more favorable in the aggregate even  
16 though it found that the quantifiable costs of the ESP were \$386 million greater than  
17 under the hypothetical MRO. Specifically, it stated as follows:

18 Further, while the modified ESP will lead us towards true competition  
19 in the state of Ohio, it also ensures not only that customers will have a  
20 safe harbor in the event there is any uncertainty in the competitive  
21 markets by having a constant, certain, and stable option on the table,  
22 **but also that AEP-Ohio maintains its financial stability necessary**  
23 **to continue to provide adequate, safe, and reliable service to its**  
24 **customers.** Accordingly, we believe these non-quantifiable benefits  
25 significantly outweigh any of the costs.<sup>5</sup> (emphasis added)

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<sup>5</sup> Case No. 11-346-EL-SSO, p. 76.

**B. Recommended Adjustments to the Time Period of Analysis**

**Would Understate ESP Benefits**

**Q. Why did your Aggregate Price Test consider the period January 1, 2013 to May 31, 2018?**

**A.** When DP&L initially proposed the ESP, it was envisioned that the plan would start on January 1, 2013 and run for five years. Consequently, that was the start date chosen. While DP&L's proposed ESP was to run through December 31, 2017 based on the January 1, 2013 start date, the contracts signed with winners of the CBP auctions would run from June 1 to May 31 of each year to coincide with the delivery periods for capacity obligations under PJM's Reliability Pricing Model (RPM). Because the CBP contracts are for fixed supplies over the June 1 to May 31 delivery year, I was informed that, in practice, contracts for supplies purchased to meet SSO load starting in June 1, 2017 would run through May 31, 2018. Consequently, in this year, the blend rate under the MRO would remain at 50% for the entire period of June 1, 2017 to May 31, 2018, and the differences in blend rates between the ESP and MRO would extend into 2018, beyond the end of the plan period. To capture these benefits, arising from the ESP plan, I considered this period when performing my test.<sup>6</sup>

**Q. Have circumstances changed since DP&L's initial filing?**

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<sup>6</sup> When considering the ESP, the statute indicates that "its pricing and all other terms and conditions, including any deferrals and any future recovery of deferrals" need to be considered, indicating an awareness that the ESP may lead to benefits or costs (relative to a hypothetical MRO) that occur outside the plan period. Ohio Code 4298.143(C)(1).

1     A.     Yes, since DP&L's ESP has not been ordered to date, the ESP will not start on January 1,  
2           2013, as assumed in my initial testimony. Consequently, I have updated Exhibit RJM-1  
3           to reflect a start date of June 1, 2013. See Exhibit RJM-1R. This analysis performs the  
4           Aggregate Price test over the period June 1, 2013 to May 31, 2018. The results do not  
5           change. Under the Aggregate Price Test, the quantifiable benefit of the ESP is  
6           approximately \$120 million.

7  
8           **C. Recommended Adjustment to the Blend Rates Was Not**  
9           **Warranted and Is Now Moot**

10    Q.     Do any intervenors recommend changes to the blend rates used in your Aggregate  
11           Price Test?

12    A.     Yes, Mr. Ruch recommends that the blend rates be modified so that the blend rates used  
13           in the test result in yearly average blend rates that correspond exactly to the caps on blend  
14           rates identified in the statute. In fact, the blend rates for the plan periods in the original  
15           proposed ESP did match these blend rates, although the first of these plan periods  
16           spanned 17-months so that the going forward plan period would coincide with the PJM  
17           RPM schedule.

18    Q.     Do you agree with this recommendation?

19    A.     No, for two reasons. First, the statute only specifies the maximum level of blending  
20           under an MRO for years two through five, but allows the PUCO to approve a lower level

1 of blending.<sup>7</sup> Thus, the blend rates assumed in my hypothetical MRO conform to the  
2 statute. Further, it is consistent with the MRO filed (but subsequently withdrawn) by  
3 DP&L in March 2012.<sup>8</sup> Second, by adjusting the start dates of the Aggregate Price Test  
4 to June 1, 2013, all of the periods in the hypothetical MRO are now 12-months. Thus,  
5 with this new start date, any debate about Mr. Ruch's proposed adjustment to the blend  
6 rates is moot.

7 **D. Other Errors**

8 **Q. Does Witness Ruch accurately characterize his estimates of the impact of increased**  
9 **switching?**

10 A. No. In his testimony and deposition, Mr. Ruch treats the adjustments for the switching  
11 tracker and increased switching as independent of one another.<sup>9</sup> In fact, they are highly  
12 dependent on one another.

13 If the switching tracker is available under the MRO as well as the ESP, then Mr. Ruch's  
14 estimate of the impact of switching is incorrect. Specifically, if one assumes that the  
15 Blended SSO Rate remains unchanged, which is the assumption made by Mr. Ruch, then  
16 increased switching with a switching tracker in effect has no impact on revenue streams

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<sup>7</sup> The portion of the SSO that must be competitively bid is specified as "ten per cent of the load in year one, **not more than** twenty per cent in year two, thirty per cent in year three, forty per cent in year four, and fifty per cent in year five." (Emphasis added.) Ohio Code 4298.142(D).

<sup>8</sup> Application of the Dayton Power and Light Company for Approval of Its Market Rate Offer, Case No. 12-426-EL-SSO, March 30, 2012, p. 2.

<sup>9</sup> See, e.g., Testimony of Roger D. Ruch, p. 22, Deposition of Roger D. Ruch, pp. 55-60.

1 (aside from potential timing issues, given the deferred recovery of switching tracker  
2 revenues), or on the Aggregate Price Test.<sup>10</sup>

3 Similarly, if there is no switching, then removing the switching tracker has no effect on  
4 the Aggregate Price Test. That is, the impact of removing the switching tracker from the  
5 MRO is dependent on the assumption that switching exceeds current levels.

6 **Q. Have you performed calculations of the Aggregate Price Test assuming that there is**  
7 **no switching tracker?**

8 A. Yes. I have updated the calculation that assumes the ST would not be available under  
9 either the ESP or the MRO (previously provided as a response to Interrogatory FES 7-  
10 17). The result is shown in Exhibit RJM-2R. As this Exhibit shows, the quantifiable  
11 benefits of the ESP under this scenario are \$33.5 million (before consideration of the  
12 retail enhancements and AER-N). Thus, without a ST (and with additional switching) the  
13 Aggregate Price Test still results in a quantifiable benefit of the ESP relative to an MRO  
14 of \$33.5 million.

15 **Q. Does Witness Ruch's testimony involve any other apparent errors?**

16 A. Yes. In the AEP decision, the PUCO determined that the non-quantifiable benefits of  
17 AEP's ESP "significantly" exceeded \$386 million. Ruch calculates the "cost" of the ESP  
18 by dividing this amount by the quantity of load served during the ESP period. However,  
19 he inaccurately calculates this "cost" because he assumes the ESP spans three years,

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<sup>10</sup> Mr. Ruch acknowledged as much in his deposition. Deposition of Roger D. Ruch, at 52-53; 56; 58.

1        rather than two years, as was assumed by the PUCO.<sup>11</sup> As a result of this error, the  
2        “cost” of the ESP in the AEP case was \$4.02 per MWh, rather than \$2.68, as reported in  
3        the table on page 29 of Ruch’s testimony.

4        **Q. Did you find any problems with witness Murray’s calculations?**

5        A. Yes. Mr. Murray utilizes my Aggregate Price Test with modifications to certain  
6        assumptions. In two tests, he assumes that the switching tracker is in place under the  
7        ESP, but not in the MRO, but incorrectly calculates the switching tracker adjustment,  
8        overstating its impact on the Aggregate Price Test by over 48%.  
  
9        The rate adjustment under the switching tracker depends on the “Lost Revenue  
10       Opportunity” (in dollars per MWh) and the quantity of lost SSO sales (in MWh).<sup>12</sup>  
11       Under the ESP, the “Lost Revenue Opportunity” is calculated as the difference between  
12       the Blended SSO Rate and the Forecasted CBP Auction Rate. However, in Exhibits  
13       KMM-17 and KMM-19, Murray calculates the “Lost Revenue Opportunity” as the  
14       difference between the Current Generation Rate and the Forecasted CBP Auction Rate.  
15       This error results in an estimate of Switching Tracker Revenue Requirement of \$74.90  
16       million with the 70% switching assumed by Murray, rather than \$50.74 million.<sup>13</sup> As a  
17       result, comparison of the ESP and MRO is biased in favor of the MRO.

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<sup>11</sup> “Therefore, in considering this modified ESP with the results that would otherwise apply under the statutory price test, we will conduct the statutory price test for the period between June 1, 2013, and May 31, 2015.” PUCO Decision, Case No. 11-346-EL-SSO, p. 74.

<sup>12</sup> Testimony of Craig Jackson, Exhibit CLJ-5.

<sup>13</sup> Mr. Murray also fails to adjust the Blended SSO Rate to account for the changing mix of residential and non-residential customers with increased switching. My correction of Mr. Murray’s Switching Tracker Revenue Requirement only accounts for the error in calculating the “Lost Revenue Opportunity”, and not the failure to properly adjust the Blended SSO Rate.

1 **III. Financial Integrity and Financial Condition of DP&L**

2 **Q. What is the purpose of this section of your rebuttal and supplemental testimony?**

3 A. This section provides my supplemental testimony in response to certain issues raised by  
4 Intervenor and Staff witnesses in their pre-filed direct testimony regarding the financial  
5 integrity and rate of return of DP&L, both historically and as projected under the ESP and  
6 hypothetical MRO.

7 **Q. Which testimony does this section address?**

8 A. This section will focus on certain issues raised in the pre-filed direct and hearing  
9 testimony of DP&L Witnesses Craig Jackson and William Chambers; Intervenor  
10 Witnesses Edward Hess, Joseph Bowser, Jonathan Lesser, Lane Kollen, Kevin Murray,  
11 Michael Gorman and Daniel Duann; and Staff Witnesses Shahid Mahmud and Hisham  
12 Choueiki. In many cases, certain issues are raised by multiple witnesses. Thus, I provide  
13 a single response to each issue, with citations to certain witnesses when relevant.

14 **A. DPLER Margins / Transfer Pricing**

15 **Q. How do you respond to Dr. Lesser's critique that "[i]f DP&L were properly**  
16 **structurally corporately separated and operating to maximize its revenues,**  
17 **independently of DPLER's interest in generating higher margins on its retail sales,**  
18 **DP&L would likely require a structure with a price higher than the LMP from**  
19 **whomever it would sell to." (Direct Testimony of Jonathan A. Lesser, p. 23)?**



1     A.     DP&L operates in a competitive market. It sells all of its generation into PJM at market  
2           prices. If DP&L spun off its generation, then the resulting generation company likely  
3           would sell its output into PJM at the same prices that DP&L does. Dr. Lesser provides  
4           no empirical evidence that DP&L could enter into long-term contracts with entities other  
5           than DPLER that would be more profitable on a risk-adjusted basis than its current  
6           strategy, or that any incremental margins earned in such long-term agreements would be  
7           materially greater than the forward prices relied on by DP&L when establishing its  
8           pricing terms with DPLER. Indeed, economic first principles suggest that it could be  
9           difficult to find such great deals in a competitive market place.

10                   **B.     Purpose of SSR**

11     Q.     Is the SSR a mechanism to recover “stranded costs”?

12     A.     No. Stranded costs are measured as the difference between the book value of the assets  
13           and the market value of the generation assets. As referenced by Mr. Rose (pp. 6-7) and  
14           Mr. Hess (p. 71), such calculations were performed in 1999. I am not aware of any  
15           testimony in this case that presents such a calculation.

16           The SSR is not tied to the diminution in value of DP&L’s generation assets. Instead, it is  
17           designed to assist DP&L as a whole in maintaining its financial integrity, including  
18           providing DP&L the *opportunity* to earn a Return on Equity (ROE) going forward that is  
19           reasonable, though on the low end, based on DP&L in its current form that combines  
20           generation with transmission and distribution.

1 By assisting DP&L in maintaining its financial integrity going forward, the SSR will  
2 benefit all stakeholders, including those customers that switch to CRES providers,  
3 because it will enhance DP&L's ability to continue offering safe and reliable  
4 transmission and distribution services.

5 **Q. Is the purpose of the SSR essentially to stabilize or subsidize the generation**  
6 **business?**

7 **A.** No. The SSR helps maintain the financial integrity of DP&L as a whole, including  
8 generation, transmission and distribution.

9 **Q:** Numerous intervenor witnesses claim that the SSR is a mechanism to recover  
10 transition costs under Ohio law. Ohio Rev. Code 4928.39 states that transition costs  
11 are costs that meet the following criteria, quoted at p. 10 of OCC Witness Rose's  
12 testimony:

13 **"(A) The costs were prudently incurred.**

14 **(B) The costs are legitimate, net, verifiable, and directly assignable or allocable to**  
15 **retail electric generation service provided to electric consumers in this state.**

16 **(C) The costs are unrecoverable in a competitive market.**

17 **(D) The utility would otherwise be entitled to an opportunity to recover the costs."**

18  
19 **Does the SSR proposed by DP&L meet these criteria?**  
20

21 **A:** No. The proposed SSR is a charge that is designed and intended to provide DP&L as a  
22 whole with the financial wherewithal to continue to provide safe, reliable service to its  
23 customers at reasonable rates.<sup>14</sup> This goal is furthered if DP&L has the opportunity to

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<sup>14</sup> See, e.g., Deposition of Craig Jackson, pp. 483-88.

1       earn an ROE that will assist it in maintaining its financial integrity on a going-forward  
2       basis. Moreover, the level of the SSR is set based on projections of the future financial  
3       results of DP&L as a whole, not with regard to historical costs. The process of setting the  
4       SSR has nothing to do with whether certain “generation costs” were “prudently  
5       incurred,” nor whether “the utility would otherwise be entitled to an opportunity to  
6       recover these costs.” It is set purely with regard to whether it is sufficient to allow DP&L  
7       to continue to provide safe, reliable service, a goal which is furthered if DP&L has an  
8       opportunity to earn a reasonable ROE. Thus, the justification for the charge and the level  
9       at which it is set are not based on the transition charge criteria specified above.

10  
11                   **C.    ROE and Financial Integrity**

12   **Q.    Are you aware that the level of projected ROE for DP&L is an issue in this case and**  
13       **that the SSR is determined in part with reference to the ROE?**

14   **A.    Yes. I have reviewed the direct testimony of Dr. Chambers, Witness Duann, and Staff**  
15       **Witnesses Mahmud and Choueiki, all of whom address the appropriate ROE in some**  
16       **fashion.**

17   **Q.    What is the dispute regarding the appropriate ROE?**

18   **A.    The dispute appears to center around the appropriate ROE to assume for purposes of**  
19       **calculating the SSR, as well as the level of projected ROE that, when considered together**  
20       **with other financial metrics, will indicate a compromised level of financial integrity for**  
21       **DP&L.**

1    **Q.    In your opinion, what is a reasonable range of ROEs for DP&L?**

2    A.    In my opinion, a reasonable range of ROEs for DP&L to earn based on the imputed 50/50  
3           capital structure in Dr. Chambers' direct testimony would be approximately [REDACTED]  
4           percent. However, in order to compensate equity investors in DP&L fairly for the risk  
5           that they are bearing, I would recommend using the midpoint of this range, which is [REDACTED]  
6           percent.

7    **Q.    What is the basis for this range?**

8    A.    First, I have updated Dr. Chambers' Exhibits WJC-9, 12.A and 12.C, which show ROE  
9           data for integrated electric utilities comparable to DP&L, to include 2012 data where  
10          available. These updated Exhibits are attached to this testimony as Exhibits RJM-4R.A  
11          and RJM-4R.B. These exhibits show historical ROEs from 2009 to 2012 ranging from  
12          7.4 to 10.9 percent based on the 25<sup>th</sup> to 75<sup>th</sup> percentiles of the sample. The median was in  
13          the 9.0 percent range.

14          Second, like Dr. Chambers, I have relied on the fact that the PUCO approved a range of 7  
15          to 11 percent for an enterprise similar to DP&L. This range is highly consistent with the  
16          range of historical data discussed above, as well as the standard cost of capital analysis  
17          discussed below.

18          Third, in view of the Intervenor's criticisms related to ROEs, I have checked the  
19          reasonableness of my conclusion on this range of ROEs by performing a standard cost of

1 capital analysis using the comparable firms identified in WJC-9.<sup>15</sup> These were the same  
2 firms presented to the PUCO as comparable to DP&L for purposes of the cost of capital.  
3 I have applied the well-known Discounted Cash Flow (DCF) and Capital Asset Pricing  
4 Model (CAPM) approaches to estimating DP&L's cost of equity capital under standard  
5 principles of corporate finance. The cost of equity capital determined in this manner is  
6 based on market data, and thus represents the rate of return that investors would expect to  
7 earn in the future on equity investments in assets like those of DP&L. Thus, it is an  
8 additional valid indicator of an appropriate future ROE for DP&L.

9 **Q. What are the results of this standard cost of capital analysis?**

10 A. As shown in Exhibit RJM-6R, the DCF method indicates that an appropriate range of  
11 ROEs for DP&L is in a range from 7.8 to 10.3 percent based on the 25<sup>th</sup> and 75<sup>th</sup>  
12 percentiles of the estimates. These values are in the range of the other data discussed  
13 above, but a bit higher on the low end.  
  
14 The CAPM method produces estimates in a range from 7.8 to 8.7 percent. However,  
15 these estimates likely are biased downwards for application to DP&L because the  
16 comparable firms in my sample have a higher percentage of regulated revenues than  
17 DP&L is projected to have (*see* RJM-7R) and, therefore, are less risky than DP&L on a  
18 going forward basis. Because lower risk is associated with a lower cost of equity capital  
19 under the CAPM, the above estimates likely are biased downwards.<sup>16</sup> Nevertheless,

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<sup>15</sup> See Testimony of Daniel J. Duann, pp. 38-39.

<sup>16</sup> The DCF results may also suffer from the same downward bias, but the mechanism is less clear, because the DCF method relies on analyst growth forecasts and the extent to which those analysts considered relative risk is not observable.

1       these estimates are in the range of those based on the other methods noted above, albeit  
2       higher at the low end of the range and lower at the high end.

3       **Q.     How did you translate these results into a reasonable range for DP&L?**

4       A.     The low end of the range of the different methods was 7.0, 7.4, 7.8 and 7.8 percent. The  
5       average of these four methods is 7.5 percent. The PUCO's low end estimate of 7.0  
6       percent likely should be given less weight because the basis for this estimate is not  
7       entirely clear (*e.g.*, it may be appropriate for an entity with more regulated revenues than  
8       DP&L). In addition, as noted above, the CAPM estimate likely is biased downwards.  
9       However, to be conservative I have given both estimates equal weight with the other two  
10      estimates and have taken the average of all four, 7.5 percent, as the low end of my range.

11      The high end of the range of the different methods is 8.7, 10.3, 10.9 and 11.0 percent.  
12      The CAPM estimate is an outlier and potentially biased downwards as discussed above.  
13      In addition, as noted above, the complete basis for the high end of the PUCO's range is  
14      not clear. Nevertheless, I give both the CAPM and PUCO rates equal weight and choose  
15      the average of the four methods, 10.2 percent, as the top end of my range.

16      **Q.     As noted by Dr. Duann, many of the firms in the peer sample Dr. Chambers uses for**  
17      **his ROE range are fully regulated and thus have a different risk profile. How does**  
18      **this observation affect your opinion of the appropriate range for DP&L?**

19      A.     Actually, I would expect that fully regulated utilities would be less risky than utilities that  
20      are not fully regulated. As noted above, lower risk should translate into lower ROEs. As  
21      a result, my ROE range may be a conservative lower bound for DP&L.

1    **Q.    Dr. Lesser suggests that Chambers' reference to the 7-11% ROE "range of**  
2           **reasonableness" from the AEP Decision is inappropriate since AEP faces different**  
3           **financial risks:**

4                   **"As an FRR entity, AEP Ohio is responsible through May 31, 2015 for**  
5                   **providing all of the installed capacity reserves for its connected retail load**  
6                   **(both SSO customers and customers who purchase retail electricity from**  
7                   **CRES providers). In contrast, by its own admission, DP&L has treated its**  
8                   **generation as a competitive operation for the last decade. DP&L is not a FRR**  
9                   **entity and instead participates in the PJM capacity market. Prof.**  
10                  **Chambers's "me, too" comparison of a range of return on equity values for**  
11                  **AEP Ohio with DP&L fails to account for this fundamental structural**  
12                  **difference.... More fundamentally, Prof. Chambers never demonstrates that**  
13                  **DP&L's business and financial risk are comparable to AEP Ohio's, even**  
14                  **though such "comparability" underlies the U.S. Supreme Court's *Hope***  
15                  ***Natural Gas* decision that Prof. Chambers cites to as justifying the SSR." (pp.**  
16                  **29-30)**

17  
18           **Do you agree?**  
19

20    **A.    No. Dr. Lesser's argument is flawed for several reasons. First, with respect to their**  
21           **capacity revenues, both AEP and DP&L face some systematic risk, which is relevant for**  
22           **determining a company's projected ROE. However, Dr. Lesser has presented no**  
23           **evidence that the price-risk faced by DP&L is less than the quantity risk (and potential**  
24           **penalties) that AEP may face from meeting its FRR obligation, nor am I aware of any**  
25           **such evidence. Second, from the standpoint of identifying companies that provide**  
26           **comparable risks for the purpose of determining an appropriate regulated return on**  
27           **equity, it is quite common for factors affecting revenue streams to differ in their**  
28           **details. The question is whether such differences lead to material differences in**  
29           **systematic risks. Since these risks associated with capacity revenues affect but one of**  
30           **these regulated revenue streams, I see no reason to believe that the "fundamental**

1 structural difference” claimed by Dr. Lesser makes DP&L a less risky company than  
2 AEP.

3 **Q. Mr. Mahmud proposed an SSR of \$133 million because that matches the [REDACTED] ROE**  
4 **in CLJ-2, which is based on a capital structure with less than 40% debt after 2011**  
5 **(see WJC-1). What is your assessment of Mr. Mahmud’s [REDACTED] ROE target?**

6 **A.** As a matter of financial economics, the ROE that a business needs to earn in the long run  
7 to satisfy investors depends on its capital structure – businesses with higher leverage need  
8 to earn higher ROEs to compensate for their added risk.<sup>17</sup> For example, Chambers  
9 Exhibit WJC-1 shows an ROE of [REDACTED] in 2013 when debt is 38%, while WJC-2 shows  
10 an [REDACTED] ROE when debt is 48%. Hence, it is important to use an appropriate capital  
11 structure when selecting a target ROE.

12 DP&L’s actual capital structure appears to have relatively low debt (40% in 2011), but in  
13 reality it supports debt held at the DPL, Inc. level. Dr. Chambers discussed the rationale  
14 for adjusting the capital structure to be more in line with industry norms (50/50) in his  
15 direct testimony (p. 31). Moreover, Dr. Duann (p. 41), Mr. Gorman (p. 9), Mr. Kollen  
16 (pp. 9-10), and Mr. Mahmud (p. 6) note that a 50% debt ratio is reasonable.

17 Because Mr. Mahmud analyzes DP&L at a pro forma 50% debt level, the true “as-filed”  
18 average ROE that he should use comes from WJC-2, which also reflects the 50% debt  
19 level. This average ROE is [REDACTED]. Therefore, he should focus on a [REDACTED] (or higher)

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<sup>17</sup> Franklin Allen, Stewart C. Myers and Richard A. Brealey, Principles of Corporate Finance, Ninth Edition, McGraw-Hill Irwin, pp. 481-82.



1 ROE target, which implies an SSR of at least [REDACTED] under Mr. Mahmud's  
2 calculations.

3 **Q. Do Staff Witnesses Mahmud and Choueiki also address the appropriate projected**  
4 **ROE for DP&L?**

5 A. Yes. Witness Choueiki states that "Staff recommends an average targeted ROE of no  
6 more than 7 percent over the three year ESP period,"<sup>18</sup> and also supports Mahmud's use  
7 of a range of [REDACTED].<sup>19</sup> Mr. Mahmud confirmed in his hearing testimony that  
8 this range of ROEs is based on the "as-filed" average ROE and the low end of the  
9 Commission range.<sup>20</sup> However, neither witness provides a basis for this choice of ROEs  
10 other than that they are "deemed in the range of reasonableness per the Commission  
11 Opinion and Order in Case No. 11-346-EL-SSO."<sup>21</sup> Nor has either witness performed an  
12 analysis of the impact that setting an SSR based on these low ROEs would have on  
13 DP&L's financial integrity and condition.

14 **Q. Do you agree with Mr. Mahmud and Dr. Choueiki that the appropriate ROE in this**  
15 **case should be set "no higher" than 7.0 percent?**

16 A. No. If anything, the Commission should consider setting the SSR no lower than 7.0  
17 percent in order to ensure that DP&L can maintain its financial integrity.

18 **Q. Could you please explain the basis for this opinion?**

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<sup>18</sup> Testimony of Hisham M. Choueiki, p. 15.

<sup>19</sup> Testimony of Hisham M. Choueiki, p. 16.

<sup>20</sup> Hearing Transcript. pp. 994-95.

<sup>21</sup> Testimony of Hisham M. Choueiki, p. 15.

1     A.     Yes. In order to ensure that it can maintain its financial integrity at “normal” levels for a  
2           firm of its risk, DP&L should have the opportunity to earn a projected ROE that is equal  
3           to its cost of equity capital, which is approximately [REDACTED] as determined above. If  
4           its projected ROE falls below this level then, all else equal, the market value of its equity  
5           will fall and the probability that DP&L will experience financial distress will rise. Thus,  
6           the appropriate level at which the PUCO should decide to set the ROE depends on its  
7           desired level of risk of financial distress for DP&L, balanced by other factors. Indeed,  
8           the Commission could decide to set the SSR at a level that would result in an expected  
9           ROE that is higher than the low end of the range in order to provide a cushion. Neither  
10          Dr. Choueiki nor Mr. Mahmud explicitly addresses this important point in their  
11          testimony.

12    **Q.     Is there some analysis in the record that is pertinent to determining the level of an**  
13          **SSR that would produce an appropriate minimum projected ROE?**

14    A.     Yes. Chambers Exhibits WJC-1 to 7.B provide calculations based both on the company’s  
15           “as-filed” case and on various assumptions that are departures from that case, such as  
16           removal of the SSR or ST. Focusing on WJC-2, which is the company’s “as-filed” case  
17           that includes an SSR of \$137.5 million, assumes the ST is in place, and incorporates the  
18           proforma debt adjustment to 50/50 debt/equity, the weighted average projected ROE for  
19           DPL for 2013 to 2017 is [REDACTED]. As noted above, this is the true ROE that DP&L has  
20           included in its “as-filed” case (not [REDACTED]), and is below the low end of my range of  
21           reasonable projected ROEs for DP&L.

1 In addition, as shown in Exhibits WJC-3 to WJC-5, if one removes the SSR, the ST, or  
2 both, DP&L's projected ROEs are significantly reduced which, of course, would  
3 significantly increase the risk of financial distress.

4 Based on this analysis, one potential "floor" for an appropriate ROE is DP&L's "as-filed"  
5 ROE of [REDACTED]. However, because this value is below DP&L's cost of equity capital, it  
6 will cause DP&L's risk of financial distress to be above normal, especially if the ST is  
7 not approved and the SSR is not set at an appropriately higher rate.

8 **Q. How might the company reduce the above normal risk of financial distress that**  
9 **would prevail with use of an ROE in the range of 7 percent?**

10 A. One option would be to increase the SSR. Another option would be to implement cost  
11 savings and/or capex reductions that would not result in significant increased costs or  
12 decreased revenues to DP&L, or in the degradation of service to its customers. I  
13 understand that the current plans for capex and O&M reductions are preliminary and  
14 evolving. In addition, they do not account for the potential adverse side effects that often  
15 accompany reductions in maintenance.<sup>22</sup> Additionally, reduced revenue from additional  
16 customer switching may offset savings from capex and O&M. For instance, without  
17 capex or O&M reductions, operating income in 2015 is projected to be [REDACTED]  
18 (WJC-2.B) with no additional switching beyond the August 2012 level as compared to  
19 [REDACTED] with DP&L's projection of switching (WJC-3.B). This [REDACTED]  
20 reduction in operating income is very close to the potential savings from capex and

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<sup>22</sup> See Depositions of Dr. Lesser (pp. 25-26), Mr. Bowser (pp. 52-53), Mr. Gorman (pp. 16, 33), and Dr. Duann (p. 104).

1 O&M.<sup>23</sup> Even if switching rates do not increase and DP&L is able to improve operating  
2 income by about [REDACTED] with reductions to capex and O&M, the [REDACTED]  
3 increase in net income relative to equity of [REDACTED] (WJC-2.A) would increase the  
4 projected 2015 ROE from [REDACTED], which is still below the mid-point of my  
5 reasonable range.

6 In addition, Dr. Choueiki has questioned Mr. Hoekstra's projected switching rates, which  
7 underlie some of the financial projections of Mr. Jackson and Dr. Chambers. In response,  
8 I understand that Mr. Jackson has generated a set of projections that use Dr. Choueiki's  
9 lower switching rates.

10 **Q. DP&L's Impairment Analysis references a reduction in capex. What impact would**  
11 **that have on DP&L's ROE?**

12 A. Supposing, for instance, that capex of [REDACTED] annually could be delayed by one year,  
13 the 2013 capex would decline by [REDACTED] but all other years would remain unchanged  
14 (e.g., part of the capex currently planned for 2014 is shifted to 2015, but a like amount  
15 from 2013 is added). This would provide [REDACTED] in cash flow relief in 2013 and  
16 would result in approximately [REDACTED] higher net income (assuming straightline  
17 depreciation over 25 years), but these effects are too small to have any material impact on  
18 DP&L's general financial condition. Even if the [REDACTED] reduction is possible in  
19 every year, the impact on net income by 2017 would still not offset the losses currently  
20 projected without the SSR. Further, reductions in capex or O&M can lead to adverse side

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<sup>23</sup> Mr. Jackson indicated a potential [REDACTED] O&M reduction for 2015. Using the mid-point capex reduction of [REDACTED] with an assumed mid-year timing and [REDACTED] depreciation rate, the reduction in depreciation expense would be [REDACTED].

1 effects. See depositions of Dr. Lesser (pp. 25-26), Mr. Bowser (pp. 52-53), Mr. Gorman  
2 (pp. 16, 33), and Dr. Duann (p. 104).

3 **Q. Staff Witness Choueiki indicates that financial projections beyond three years are**  
4 **too uncertain to be reliable and, therefore, that the ESP period should be limited**  
5 **just three years. Do you agree?**

6 A. No. First, while I agree that financial projections become less certain the further out one  
7 goes, it also is true that companies and financial analysts routinely undertake and rely  
8 upon projections that are five years long and often longer. For example, standard  
9 valuation texts recommend using cash flow projections in the 5-7 year range.<sup>24</sup> In  
10 addition, DPL, Inc. analysts used five-year projections of its results to opine on the value  
11 of its stock.<sup>25</sup> Five-year or longer financial projections are routinely used because the  
12 level of uncertainty is acceptable from an economic and financial standpoint. The same  
13 is true with respect to DP&L's financial projections in this case.

14 In addition, I note that the MRO statute specifies blending percentages for a five-year  
15 period. This is consistent with possible reliance on a five-year projection period for  
16 regulatory purposes under this statute. This suggests that, from a regulatory decision-  
17 making perspective in Ohio, in addition to an economic/financial decision-making  
18 perspective, five-year projections are considered certain enough to be relied upon.

19 Second, Dr. Choueiki has not considered certain consequences of adopting a three-year  
20 versus five-year plan, such as the additional regulatory risk DP&L may face in the event

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<sup>24</sup> See, e.g., Cornell, Bradford, Corporate Valuation, Tools for Effective Appraisal and Decision Making, Richard D. Irwin, Inc., 1993, Table 5-5 and pp. 131-36.

<sup>25</sup> See, e.g., Morningstar, "DPL Incorporated: AES' buyout could close by year-end," 18 August 2011, p. 6 of 19.

1 it needs an additional SSR for subsequent years, which would be particularly problematic  
2 if the ST is not approved and the SSR is not set at a high enough level. For example, as  
3 shown in Chambers Exhibit WJC-3, DP&L's ROE is expected to be just [REDACTED] in  
4 2015 and [REDACTED] in 2016 with an SSR set at \$137.5 million, which is indicative of a  
5 precarious financial position as noted by Witness Chambers. In light of this potential  
6 situation, it would be prudent for DP&L to request additional funds through an SSR for  
7 Years 1 to 3, a request that is mitigated through awarding the full five-year plan. Instead,  
8 Dr. Choueiki proposes to accelerate the transition to market rates with more aggressive  
9 blending of CBP auction rates than is proposed by DP&L, a proposal that compounds the  
10 effect of the shorter three year ESP term.

11 **Q. Do you agree with Dr. Choueiki's recommendation that DP&L "maximize its**  
12 **generation revenues"**<sup>26</sup> **to minimize the impact of the faster transition to market he**  
13 **proposes?**

14 **A.** I agree that DP&L should aim to "maximize its generation revenues," but I have seen no  
15 evidence, nor does Dr. Choueiki provide any, that DP&L is not already managing its  
16 plants in an efficient and effective manner to maximize the risk-adjusted net profits from  
17 their operation. Thus, Dr. Choueiki's recommendation that DP&L's revenues should be  
18 limited based on the presumption that the revenue loss can be offset by these assumed  
19 improvements in operational and market performance is unfounded.

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<sup>26</sup> Testimony of Hisham M. Choueiki, p. 13.

## The Dayton Power And Light Company

Case No. 12-426-EL-SSO

## Aggregate Price Test: ESP versus MRO

Line	MRO and ESP Rates and Revenues	6/2013 - 5/2014	6/2014 - 5/2015	6/2015 - 5/2016	6/2016 - 5/2017	6/2017 - 5/2018	Total or Average	Source / Calculation
1	Bypassable Generation Rates (\$/MWh)							
2	Current Generation Rate	\$ 76.62	\$ 76.62	\$ 76.62	\$ 76.62	\$ 76.62	\$ 76.62	Exhibit RJM-2
3	Forecasted CBP Auction Rates	\$ 44.86	\$ 58.01	\$ 61.70	\$ 64.07	\$ 65.75	\$ 58.88	Rabb, Schedule 5B, Line 4
4								
5	CBP Rate Blending Schedule (%)							
6	MRO	10.0%	20.0%	30.0%	40.0%	50.0%		Ohio Revised Code Section 4928.143
7	ESP	10.0%	40.0%	70.0%	100.0%	100.0%		Seeger-Lawson, Schedule 5
8								
9	Blended SSO Rate (\$/MWh)							
10	MRO	\$ 73.45	\$ 72.90	\$ 72.15	\$ 71.60	\$ 71.18	\$ 72.26	Line(2)*(1-Line(6)) + Line(3)*Line(6)
11	ESP	\$ 73.45	\$ 69.18	\$ 66.18	\$ 64.07	\$ 65.75	\$ 67.72	Line(2)*(1-Line(7)) + Line(3)*Line(7)
12	Difference in Bypassable Rates	\$ -	\$ (3.72)	\$ (5.97)	\$ (7.53)	\$ (5.44)	\$ (4.53)	Line(11) - Line(10)
13								
14	Total Bypassable Revenues (\$Millions)							
15	MRO	\$ 388.81	\$ 385.92	\$ 381.93	\$ 379.04	\$ 376.84	\$ 1,912.55	Line(10)*Line(33)
16	ESP	\$ 388.81	\$ 366.21	\$ 350.34	\$ 339.16	\$ 348.05	\$ 1,792.57	Line(11)*Line(33)
17	Difference in Bypassable Revenues	\$ -	\$ (19.71)	\$ (31.59)	\$ (39.88)	\$ (28.79)	\$ (119.98)	Line(16) - Line(15)
18								
19								
20	Non-Bypassable Revenues (\$Millions)							
21	MRO	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 687.50	Jackson, Exhibit CLJ-2
22	ESP	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 687.50	Jackson, Exhibit CLJ-2
23	Difference in Non-Bypassable Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Line(22) - Line(21)
24								
25	ESP versus MRO Price Test (\$Millions)							
26	Difference in Bypassable Revenues	\$ -	\$ (19.71)	\$ (31.59)	\$ (39.88)	\$ (28.79)	\$ (119.98)	Line(17)
27	Difference in Non-bypassable Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Line(23)
28	Total Change in Revenues	\$ -	\$ (19.71)	\$ (31.59)	\$ (39.88)	\$ (28.79)	\$ (119.98)	Line(26) + Line(27)
29								
30	Load and Switching Assumptions							
31								
32	Switching	61.7%	61.7%	61.7%	61.7%	61.7%		1 - Line(33) / Line(34)
33	DP&L SSO Load (TWh)	5.29	5.29	5.29	5.29	5.29		Seeger-Lawson, WP-8
34	Total Load (TWh)	13.82	13.82	13.82	13.82	13.82		Seeger-Lawson, WP-8

Note: The Aggregate Price Test value that comes from this spreadsheet does not include any impact from the Yankee Solar Facility adjustment

## The Dayton Power And Light Company

Case No. 12-426-EL-SSO

## Aggregate Price Test: ESP versus MRO, Switching Rates from Hoekstra Testimony, Without Switching Tracker

Line	MRO and ESP Rates and Revenues	6/2013 - 5/2014	6/2014 - 5/2015	6/2015 - 5/2016	6/2016 - 5/2017	6/2017 - 5/2018	Total or Average	Source / Calculation
1	Bypassable Generation Rates (\$/MWh)							
2	Current Generation Rate	\$ 76.38	\$ 75.65	\$ 75.28	\$ 75.09	\$ 75.04	\$ 75.49	Worksheets Exhibit RJM-2 7-17A though Exhibit RJM-2 7-17E, Line(55)
3	Forecasted CBP Auction Rates	\$ 44.86	\$ 58.01	\$ 61.70	\$ 64.07	\$ 65.75	\$ 58.88	Rabb, Schedule 5B, Line 4
4								
5	CBP Rate Blending Schedule (%)							
6	MRO	10.0%	20.0%	30.0%	40.0%	50.0%		Ohio Revised Code Section 4928.143
7	ESP	10.0%	40.0%	70.0%	100.0%	100.0%		Seeger-Lawson, Schedule 5
8								
9	Blended SSO Rate (\$/MWh)							
10	MRO	\$ 73.23	\$ 72.12	\$ 71.21	\$ 70.68	\$ 70.39	\$ 71.53	Line(2)*(1-Line(6)) + Line(3)*Line(6)
11	ESP	\$ 73.23	\$ 68.59	\$ 65.78	\$ 64.07	\$ 65.75	\$ 67.48	Line(2)*(1-Line(7)) + Line(3)*Line(7)
12	Difference in Bypassable Rates	\$ -	\$ (3.53)	\$ (5.43)	\$ (6.61)	\$ (4.65)	\$ (4.04)	Line(11) - Line(10)
13								
14	Total Bypassable Revenues (\$Millions)							
15	MRO	\$ 204.14	\$ 136.59	\$ 118.69	\$ 111.86	\$ 110.11	\$ 681.40	Line(10)*Line(33)
16	ESP	\$ 204.14	\$ 129.90	\$ 109.64	\$ 101.40	\$ 102.84	\$ 647.93	Line(11)*Line(33)
17	Difference in Bypassable Revenues	\$ -	\$ (6.68)	\$ (9.05)	\$ (10.47)	\$ (7.27)	\$ (33.47)	Line(16) - Line(15)
18								
19								
20	Non-Bypassable Revenues (\$Millions)							
21	MRO	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 687.50	Seeger-Lawson, Schedule 8
22	ESP	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 137.50	\$ 687.50	Seeger-Lawson, Schedule 8
23	Difference in Non-Bypassable Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Line(22) - Line(21)
24								
25	ESP versus MRO Price Test (\$Millions)							
26	Difference in Bypassable Revenues	\$ -	\$ (6.68)	\$ (9.05)	\$ (10.47)	\$ (7.27)	\$ (33.47)	Line(17)
27	Difference in Non-bypassable Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Line(23)
28	Total Change in Revenues	\$ -	\$ (6.68)	\$ (9.05)	\$ (10.47)	\$ (7.27)	\$ (33.47)	Line(26) + Line(27)
29								
30	Load and Switching Assumptions							
31								
32	Switching	79.8%	86.3%	87.9%	88.5%	88.7%		Worksheet WP RJM 7-17 Line(9)
33	DP&L SSO Load (TWh)	2.79	1.89	1.67	1.58	1.56		Line(38)*(1 - Line(36))
34	Total Load (TWh)	13.82	13.82	13.82	13.82	13.82		Seeger-Lawson, WP-8

Note: The Aggregate Price Test value that comes from this spreadsheet does not include any impact from the Yankee Solar Facility adjustment



**The Dayton Power And Light Company**  
**Case No. 12-426-EL-SSO**  
**Capital Structure of Comparable Firms to DP&L**

Data: Historical  
Type of Filing: Rebuttal  
Work Paper Reference No(s).: JDM-6

Rebuttal RJM-3R

Page 1 of 1

Witness Responsible: R. Jeffrey Malinak

Company	Ticker	Credit Rating	Shares	Stock Price	Market Cap	Book Value				Total Capitalization		Debt to Capital	
						Common Equity	Min. Interest	Pref. Equity	Total Debt	Book	Market	Book	Market
[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]
ALLETE	ALE	BBB+	38.845	\$40.57	\$1,575.8	\$1,201.0	\$0.0	\$0.0	\$1,018.1	\$2,219.1	\$2,593.9	45.9%	39.3%
Alliant Energy	LNT	A-	110.987	\$43.46	\$4,823.3	\$3,134.9	\$146.9	\$0.0	\$3,415.6	\$6,697.4	\$8,385.8	51.0%	40.7%
Avista Corp.	AVA	BBB	59.764	\$23.83	\$1,424.3	\$1,259.5	\$22.6	\$0.0	\$1,420.5	\$2,702.6	\$2,867.4	52.6%	49.5%
Cen. VT Pub. Serv.	CV		13.479	\$34.97	\$471.4	\$276.3	\$0.0	\$8.1	\$228.4	\$512.8	\$707.9	44.6%	32.3%
Cleco Corp.	CNL	BBB	60.726	\$39.69	\$2,410.5	\$1,499.2	\$0.0	\$0.0	\$1,351.0	\$2,850.2	\$3,761.5	47.4%	35.9%
Empire Dist. Elec.	EDE		42.421	\$20.14	\$854.5	\$717.8	\$0.0	\$0.0	\$719.7	\$1,437.5	\$1,574.2	50.1%	45.7%
IdaCorp	IDA	BBB	50.157	\$43.00	\$2,156.6	\$1,758.8	\$4.2	\$0.0	\$1,607.4	\$3,370.4	\$3,768.2	47.7%	42.7%
MGE Energy	MGEE		23.114	\$50.58	\$1,169.0	\$579.4	\$0.0	\$0.0	\$361.5	\$940.9	\$1,530.5	38.4%	23.6%
Northeast Utilities	NU	A-	313.943	\$38.73	\$12,159.4	\$9,237.1	\$155.6	\$0.0	\$9,165.8	\$18,558.4	\$21,480.8	49.4%	42.7%
UIL Holdings	UIL	BBB	50.665	\$35.42	\$1,794.5	\$1,116.6	\$0.3	\$0.0	\$1,835.7	\$2,952.5	\$3,630.5	62.2%	50.6%
UniSource Energy	UNS		41.384	\$42.03	\$1,739.4	\$1,065.5	\$0.0	\$0.0	\$1,851.2	\$2,916.6	\$3,590.6	63.5%	51.6%
Westar Energy	WR	BBB	126.462	\$28.32	\$3,581.1	\$2,896.1	\$14.1	\$0.0	\$3,407.2	\$6,317.4	\$7,002.3	53.9%	48.7%
Wisconsin Energy	WEC	A-	230.070	\$36.54	\$8,406.3	\$4,135.1	\$30.4	\$0.0	\$5,260.5	\$9,426.0	\$13,697.2	55.8%	38.4%
Median:					\$1,794.5	\$1,259.5	\$0.3	\$0.0	\$1,607.4	\$2,916.6	\$3,630.5	50.1%	42.7%
Mean:					\$3,274.3	\$2,221.3	\$28.8	\$0.6	\$2,434.0	\$4,684.8	\$5,737.8	50.9%	41.7%
DPL Inc. <sup>1</sup>						\$426.8	\$0.0	\$0.0	\$2,657.8	\$3,084.6		86.2%	
DP&L <sup>1</sup>						\$1,299.1	\$0.0	\$22.9	\$903.1	\$2,225.1		40.6%	

Notes & Sources:

<sup>1</sup> No Bloomberg data for DPL or DP&L. DPL Acquired by AES in 2011.

[A] Company list from JDM-6.

[B] Tickers from JDM-6.

[C] From Thomson One, as of March 25, 2013.

[D] From Bloomberg on 12/31/2012, except for CV which is from Bloomberg on 3/30/2012 (shares in millions).

[E] From Bloomberg on 12/31/2012, except for CV which is from Bloomberg on 3/30/2012.

[F] = [D] \* [E] (dollars in millions).

[G] From Capital IQ on 12/31/2012. Data for CV from SEC-Edgar, 10Q, on 3/31/2012 (dollars in millions).

[H] From Capital IQ on 12/31/2012. Data for CV from SEC-Edgar, 10Q, on 3/31/2012 (dollars in millions).

[I] From Capital IQ on 12/31/2012. Data for CV from SEC-Edgar, 10Q, on 3/31/2012 (dollars in millions).

[J] From Capital IQ on 12/31/2012. Data for CV from SEC-Edgar, 10Q, on 3/31/2012 (dollars in millions).

[K] = [G] + [H] + [I] + [J] (dollars in millions).

[L] = [F] + [H] + [I] + [J] (dollars in millions).

[M] = [J] / [K].

[N] = [J] / [L].

**The Dayton Power And Light Company**  
**Case No. 12-426-EL-SSO**  
**ROE Ratios of Comparable Firms**

Data: Historical and Forecasted  
Type of Filing: Rebuttal  
Work Paper Reference No(s): Rebuttal RJM-4R.B

Rebuttal RJM-4R.A  
Page 1 of 1  
Witness Responsible: R. Jeffrey Malinak

Company Name	Credit Rating			ROE						
	Fitch	S&P	Moody's	Actual				Projected		
				2009	2010	2011	2012	2013	2014	2015-2017 <sup>1</sup>
Florida Power Corporation	BBB-	BBB-	Baa1	11.7%	9.7%	6.6%	5.6%			
Ohio Power Company	BBB-	BBB	Baa1	20.4%	13.7%	10.2%	7.7%	9.5%	10.0%	10.0%
Pacific Gas & Electric Company	BBB-	BBB	A3	12.2%	10.0%	7.2%	6.4%	8.5%		10.0%
Public Service Co. of Colorado	BBB-	A-	Baa1	8.8%	10.1%	9.4%	10.3%			
South Carolina Electric & Gas Company	BBB-	BBB-	Baa2	9.6%	8.8%	8.6%	9.0%			
Tampa Electric Company	BBB-	BBB-	A3	9.2%	11.4%	10.9%	10.3%			
Union Electric Company	BBB-	BBB-	Baa2	7.2%	9.2%	7.2%	10.6%			
Virginia Electric and Power Company	BBB-	A-	A3	5.3%	10.9%	9.5%	11.7%			
Black Hills Power Inc.	BBB	BBB-	Baa2	8.7%	10.6%	8.4%	8.3%			
The Detroit Edison Company	BBB	BBB-	Baa1	10.1%	11.2%	10.7%	11.5%			
Monongahela Power Company	BBB	BBB-	Baa1	-	17.4%	0.2%	-			
NorthWestern Corporation	BBB	BBB	Baa1	9.5%	9.6%	11.0%	11.0%	9.0%		10.0%
PacifiCorp	BBB	A-	Baa1	8.6%	8.2%	7.6%	7.2%			
Public Service Company of Oklahoma	BBB	BBB	Baa1	9.7%	8.8%	14.4%	12.6%			
Public Service Company of New Hampshire	BBB	A-	Baa2	9.6%	10.9%	10.0%	9.0%			
Southwestern Public Service Company	BBB	A-	Baa1	7.2%	8.2%	8.8%	9.4%			
Westar Energy, Inc.	BBB	BBB	Baa2	7.9%	8.8%	8.9%	9.7%	8.5%	9.0%	9.0%
Appalachian Power Company	BBB-	BBB	Baa2	6.1%	4.9%	5.7%	8.6%			
Arizona Public Service Company	BBB-	BBB	Baa1	7.4%	9.2%	8.7%	9.8%	9.5%		10.0%
Consumers Energy Company	BBB-	BBB-	Baa2	7.8%	10.9%	11.0%	9.9%	13.0%	13.5%	13.0%
Empire District Electric Company	BBB-	BBB-	Baa2	7.3%	7.5%	8.1%	7.9%	8.0%	8.0%	9.0%
Indiana Michigan Power Company	BBB-	BBB	Baa2	13.9%	7.5%	8.7%	6.6%			
Indianapolis Power & Light Company	BBB-	BBB-	Baa2	15.0%	15.8%	13.7%	12.9%			
Kentucky Power Company	BBB-	BBB	Baa2	5.8%	8.0%	9.3%	10.8%			
Southwestern Electric Power Company	BBB-	BBB	Baa3	8.2%	8.9%	9.3%	10.4%			
Nevada Power Company	BB+	BB+	Baa3	5.1%	6.9%	4.7%	8.9%	8.5%		9.0%
Sierra Pacific Power Company	BB+	BB+	Baa3	7.7%	7.3%	6.1%	8.4%			
Tucson Electric Power Company	BB+	BB+	Baa3	14.8%	16.0%	11.1%	7.8%	12.0%		14.0%
			Minimum:	5.1%	4.9%	0.2%	5.6%	8.0%	8.0%	9.0%
			25th Percentile:	7.4%	8.2%	7.5%	8.1%	8.5%	8.8%	9.0%
			Median:	8.7%	9.4%	8.9%	9.4%	9.0%	9.5%	10.0%
			Average:	9.4%	10.0%	8.8%	9.3%	9.6%	10.1%	10.4%
			75th Percentile:	9.9%	10.9%	10.3%	10.5%	9.5%	10.9%	10.0%
			Maximum:	20.4%	17.4%	14.4%	12.9%	13.0%	13.5%	14.0%
The Dayton Power and Light Company	BBB-	BBB-	Baa2	18.0%	20.0%	14.1%	6.9%			

**Notes & Sources:**

<sup>1</sup> Ohio Power Company, Westar Energy, Inc., Consumers Energy Company, and Empire District Electric Company report ROE projections for 2016-2018, those values have been included in the 2015-2017 column. The Projection for 2015-2017, or 2016-2018, is for each year separately. it is not a sum.  
Fitch Credit Ratings from Fitch Ratings, U.S. Utilities, Power & Gas Financial Peer Study, June 2012, at 11-12.  
S&P Credit Ratings from Thomson One and StandardAndPoors.com, as of June 22, 2012.  
Moody's Credit Ratings from Moodys.com, as of June 22, 2012.  
ROE = Net Income / ((Book Equity year<sub>t</sub> + Book Equity year<sub>t-1</sub>) / 2) from WJC-12.C.  
Projections from ValueLine. ROE = Return on Common Equity.  
Companies without projections are not substantial subsidiaries of their parent company. A subsidiary company must make up at least 2/3 of the parent company's 2011 operating revenue to be considered substantial.  
Projections for Ohio Power Company are from the parent company AEP, which also owns Public Service Company of Oklahoma, Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, and Southwestern Electric Power Company.

**The Dayton Power And Light Company**  
**Case No. 12-426-EL-SSO**  
**Net Income and Book Equity of Comparable Firms**

Data: Historical  
Type of Filing: Rebuttal  
Work Paper Reference No(s):

Rebuttal RJM-4R.B  
Page 1 of 1  
Witness Responsible: R. Jeffrey Malinak

Company Name	Net Income				Book Equity				
	2009	2010	2011	2012	2008	2009	2010	2011	2012
Florida Power Corporation	\$462	\$453	\$314	\$266	\$3,399	\$4,490	\$4,890	\$4,675	\$4,799
Ohio Power Company	\$578	\$542	\$465	\$344	\$2,422	\$3,235	\$4,655	\$4,450	\$4,526
Pacific Gas & Electric Company	\$1,250	\$1,121	\$845	\$811	\$9,529	\$10,927	\$11,463	\$12,126	\$13,202
Public Service Co. of Colorado	\$323	\$400	\$397	\$458	\$3,578	\$3,746	\$4,138	\$4,306	\$4,586
South Carolina Electric & Gas Company	\$281	\$290	\$306	\$341	\$2,704	\$3,162	\$3,437	\$3,665	\$3,929
Tampa Electric Company	\$192	\$243	\$235	\$227	\$2,091	\$2,104	\$2,158	\$2,154	\$2,266
Union Electric Company	\$265	\$369	\$290	\$419	\$3,449	\$3,944	\$4,073	\$3,957	\$3,974
Virginia Electric and Power Company	\$356	\$852	\$822	\$1,050	\$6,274	\$7,173	\$8,507	\$8,750	\$9,233
Black Hills Power Inc.	\$23	\$31	\$27	\$27	\$255	\$278	\$309	\$336	\$319
The Detroit Edison Company	\$376	\$441	\$437	\$486	\$3,556	\$3,873	\$4,009	\$4,136	\$4,303
Monongahela Power Company	\$0	\$51	\$1	\$0	\$0	\$0	\$591	\$550	\$0
NorthWestern Corporation	\$73	\$77	\$93	\$98	\$764	\$787	\$820	\$859	\$934
PacifiCorp	\$542	\$566	\$555	\$537	\$5,946	\$6,607	\$7,270	\$7,271	\$7,603
Public Service Company of Oklahoma	\$76	\$73	\$125	\$114	\$748	\$812	\$842	\$893	\$916
Public Service Company of New Hampshire	\$66	\$90	\$100	\$97	\$634	\$727	\$926	\$1,078	\$1,087
Southwestern Public Service Company	\$68	\$78	\$90	\$106	\$930	\$950	\$962	\$1,077	\$1,177
Westar Energy, Inc.	\$175	\$204	\$230	\$275	\$2,186	\$2,245	\$2,383	\$2,769	\$2,896
Appalachian Power Company	\$156	\$137	\$163	\$258	\$2,377	\$2,772	\$2,822	\$2,936	\$3,053
Arizona Public Service Company	\$251	\$336	\$336	\$395	\$3,339	\$3,445	\$3,825	\$3,943	\$4,093
Consumers Energy Company	\$293	\$434	\$467	\$439	\$3,705	\$3,814	\$4,136	\$4,350	\$4,538
Empire District Electric Company	\$41	\$47	\$55	\$56	\$529	\$600	\$658	\$694	\$718
Indiana Michigan Power Company	\$216	\$126	\$150	\$118	\$1,435	\$1,673	\$1,694	\$1,761	\$1,804
Indianapolis Power & Light Company	\$113	\$120	\$105	\$101	\$750	\$753	\$759	\$782	\$786
Kentucky Power Company	\$24	\$35	\$42	\$51	\$398	\$432	\$446	\$460	\$480
Southwestern Electric Power Company	\$114	\$143	\$161	\$199	\$1,249	\$1,524	\$1,667	\$1,813	\$2,021
Nevada Power Company	\$134	\$186	\$133	\$258	\$2,628	\$2,650	\$2,762	\$2,849	\$2,922
Sierra Pacific Power Company	\$73	\$72	\$60	\$84	\$878	\$1,009	\$973	\$975	\$1,039
Tucson Electric Power Company	\$91	\$108	\$85	\$65	\$584	\$643	\$710	\$825	\$861
Minimum:	\$0	\$31	\$1	\$27	\$0	\$0	\$309	\$336	\$319
25th Percentile:	\$73	\$78	\$92	\$100	\$750	\$779	\$837	\$884	\$986
Median:	\$165	\$164	\$162	\$258	\$2,138	\$2,175	\$2,271	\$2,461	\$2,896
Average	\$236	\$272	\$253	\$284	\$2,369	\$2,656	\$2,925	\$3,016	\$3,262
75th Percentile	\$301	\$408	\$351	\$407	\$3,412	\$3,763	\$4,089	\$4,178	\$4,414
Maximum:	\$1,250	\$1,121	\$845	\$1,050	\$9,529	\$10,927	\$11,463	\$12,126	\$13,202
The Dayton Power and Light Company	\$259	\$278	\$193	\$91	\$1,475	\$1,403	\$1,380	\$1,358	\$1,299

Notes & Sources:

Numbers in millions.

Financials from Capital IQ.

2012 data for Kentucky Power Company from Kentucky Power Company 2012 Annual Report, at 4, 6.

**The Dayton Power And Light Company**  
**Case No. 12-426-EL-SSO**  
**Cost of Equity of Comparable Firms to DP&L**  
**CAPM Method**

Data: Historical

Rebuttal RJM-5R

Type of Filing: Rebuttal

Page 1 of 1

Work Paper Reference No(s): JDM-6

Witness Responsible: R. Jeffrey Malinak

Company	Ticker	Value Line Beta	Bloomberg Adjusted Betas	
			5-Year Monthly	2-Year Weekly
[A]	[B]	[C]	[D]	[E]
ALLETE	ALE	0.70	0.76	0.77
Alliant Energy	LNT	0.70	0.68	0.71
Avista Corp.	AVA	0.70	0.77	0.80
Cleco Corp.	CNL	0.65	0.64	0.74
Empire Dist. Elec.	EDE	0.65	0.71	0.74
IdaCorp	IDA	0.70	0.61	0.79
MGE Energy	MGEE	0.60	0.51	0.67
Northeast Utilities	NU	0.70	0.63	0.69
UIL Holdings	UIL	0.70	0.77	0.69
UniSource Energy	UNS	0.70	0.75	0.68
Westar Energy	WR	0.70	0.70	0.68
Wisconsin Energy	WEC	0.60	0.51	0.58
25th Percentile		0.65	0.62	0.68
Median		0.70	0.69	0.70
75th Percentile		0.70	0.75	0.75
DPL <sup>1</sup>			0.69	0.61
Equity Risk Premium		6.70%	6.70%	6.70%
U.S. Treasury 20-year Constant Maturity		2.54%	2.54%	2.54%
Mid-Cap Premium		1.12%	1.12%	1.12%
Cost of Equity				
25th Percentile		8.02%	7.83%	8.22%
Median		8.35%	8.26%	8.36%
75th Percentile		8.35%	8.70%	8.69%

**Notes & Sources:**

<sup>1</sup> DPL's betas are as of November 28, 2011, the date it was acquired by AES.

[A] Company list from JDM-6. 'Cen. VT Pub. Serv.' not included because it stopped trading on 6/27/2012.

[B] Tickers from JDM-6.

[C] Value Line Beta from Value Line company reports.

[D] Bloomberg adjusted beta based on 5-year monthly regression against S&P 500 Index as of 12/31/2012.

[E] Bloomberg adjusted beta based on 2-year weekly regression against S&P 500 Index as of 12/31/2012.

Equity Risk Premium from Morningstar Cost of Capital Resources Center, 2013 SBBI Valuation Essentials, at 9.

U.S. Treasury 20-year Constant Maturity from Federal Reserve Bank of St. Louis: Economic Research, 20-Year Treasury Constant Maturity Rate (DGS20) for December 31, 2012.

Mid-Cap Premium from Morningstar Cost of Capital Resources Center, 2013 SBBI Valuation Essentials, at 221.

Cost of Equity = (Beta \* Equity Risk Premium) + U.S. Treasury 20-year Constant Maturity + Mid-Cap Premium.

**The Dayton Power And Light Company**  
**Case No. 12-426-EL-SSO**  
**Cost of Equity of Comparable Firms to DP&L**  
**DCF Method**

Data: Historical and Forecasted  
Type of Filing: Rebuttal  
Work Paper Reference No(s):: JDM-6

Rebuttal RJM-6R  
Page 1 of 1  
Witness Responsible: R. Jeffrey Malinak

Company	Ticker	12 Month Dividend Yield	Capital IQ		Bloomberg		Value Line	
			Growth Rate	Cost of Equity	Growth Rate	Cost of Equity	EPS Growth	Cost of Equity
[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
ALLETE	ALE	3.84%	6.20%	10.28%	5.50%	9.55%	7.77%	11.91%
Alliant Energy	LNT	3.72%	6.09%	10.03%	6.00%	9.94%	3.94%	7.80%
Avista Corp.	AVA	4.44%	4.50%	9.14%	4.50%	9.14%	3.06%	7.64%
Cleco Corp.	CNL	2.89%	7.17%	10.27%	7.00%	10.09%	5.33%	8.37%
Empire Dist. Elec.	EDE	4.56%	3.00%	7.69%	3.00%	7.69%	5.80%	10.62%
IdaCorp	IDA	2.99%	4.00%	7.11%	4.00%	7.11%	0.24%	3.24%
MGE Energy	MGEE	2.86%	4.50%	7.49%	4.00%	6.98%	4.34%	7.32%
Northeast Utilities	NU	3.28%	7.37%	10.90%	7.82%	11.36%	6.56%	10.06%
UIL Holdings	UIL	4.48%	4.68%	9.37%	4.67%	9.36%	4.57%	9.26%
UniSource Energy	UNS	3.70%	7.95%	11.94%	7.95%	11.94%	6.40%	10.33%
Westar Energy	WR	4.11%	4.73%	9.03%	5.15%	9.47%	3.87%	8.14%
Wisconsin Energy	WEC	3.00%	5.19%	8.34%	4.80%	7.94%	5.01%	8.15%
25th Percentile		3.00%	4.50%	8.18%	4.38%	7.88%	3.92%	7.76%
Median		3.71%	4.96%	9.25%	4.97%	9.41%	4.79%	8.26%
75th Percentile		4.19%	6.44%	10.27%	6.25%	9.98%	5.95%	10.13%

Notes & Sources:

- [A] Company list from JDM-6. 'Cen. VT Pub. Serv.' not included because it stopped trading on 6/27/2012.  
[B] Tickers from JDM-6.  
[C] From Bloomberg, as of 3/25/2013.  
[D] From Capital IQ.  
[E] =  $(([C] * (1 + [D])) + [D])$ .  
[F] From Bloomberg, as of 3/25/2013.  
[G] =  $(([C] * (1 + [F])) + [F])$ .  
[H] =  $((\text{EPS Long Term Forecast} / \text{Current EPS}) ^ (1 / (\text{Mid Year of EPS Forecast} - \text{Current Year EPS}))) - 1$ . From Value Line.  
[I] =  $(([C] * (1 + [H])) + [H])$ .

**The Dayton Power And Light Company**  
**Case No. 12-426-EL-SSO**  
**Revenue from Regulated Operations of Comparable Firms to DP&L**

Data: Historical and Forecasted  
Type of Filing: Rebuttal  
Work Paper Reference No(s): JDM-6

Rebuttal RJM-7R

Page 1 of 1

Witness Responsible: R. Jeffrey Malinak

Company [A]	Ticker [B]	Revenue from Regulated Operations [C]
ALLETE	ALE	85.99%
Alliant Energy	LNT	90.57%
Avista Corp.	AVA	90.87%
Cen. VT Pub. Serv.	CV	100.00%
Cleco Corp.	CNL	95.88%
Empire Dist. Elec.	EDE	99.34%
IdaCorp	IDA	99.55%
MGE Energy	MGEE	99.04%
Northeast Utilities	NU	98.65%
UIL Holdings	UIL	99.90%
UniSource Energy	UNS	95.67%
Westar Energy	WR	100.00%
Wisconsin Energy	WEC	99.69%
<u>Average</u>		<u>96.55%</u>
DPL Projections		
2013		75%
2014		78%
2015		78%
2016		76%
2017		76%

Notes & Sources:

[A] Company list from JDM-6.

[B] Tickers from JDM-6.

[C] From JDM-6. DPL Projections = 1 - (Wholesale Operating Revenue / Total Revenues) from WJC-1.B.

**This foregoing document was electronically filed with the Public Utilities**

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Summary: Testimony Electric Security Plan (ESP) Rebuttal and Supplemental Testimony of R. Jeffrey Malinak (Redacted Version) electronically filed by Mr. Jeffrey S Sharkey on behalf of The Dayton Power and Light Company