BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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| In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2012 Under the Electric Security Plan of The Dayton Power and Light Company | : : : : | Case No. 13-1495-EL-UNC |

## APPLICATION OF THE DAYTON POWER AND LIGHT COMPANY

1. This application seeks a Commission Finding that The Dayton Power and Light Company ("DP&L") does not have significantly excessive earnings under Ohio Rev. Code § 4928.143(F) for calendar year 2012. In a Stipulation and Recommendation in Case Nos. 08-1094-EL-SSO, 08-1095-EL-ATA, 08-1096-EL-AAM, and 08-1097-EL-UNC, which Stipulation was filed on February 24, 2009 and approved by this Commission in its Opinion and Order dated June 24, 2009, the period was set for the initial application to DP&L of the Significantly Excessive Earnings Test.

2. In the February 24, 2009 Stipulation described above, the following provision dealt with the Significantly Excessive Earnings Test:

> "20. Given the concessions made by DP&L in this Stipulation, and the extension of DP&L's current rate plan through 2012, the earnings test of Section 4928.143(F), Revised Code, shall not be applicable for the years 2009-2011 (i.e., could first be applied to DP&L in 2013 for 2012)."

Accordingly, DP&L files this application to enable review by this Commission of its 2012 calendar year earnings.

3. Under Ohio Rev. Code § 4928.143(F), the Commission is to consider whether there were "excessive earnings as measured by whether the earned return on common

equity of the electric distribution utility is significantly in excess of the return on common equity that was earned during the same period by publicly traded companies, including utilities, that face comparable business and financial risk, with such adjustments for capital structure as may be appropriate."  Pursuant to Ohio Rev. Code § 4928.143(F) and Ohio Administrative Code § 4901:1-35-03(C)(10), DP&L requests the Commission's determination that significantly excessive earnings did not result for DP&L with respect to the annual period ending December 31, 2012.

4. In support of this requested determination, this application is supported by the following materials, required by Ohio Administrative Code § 4901:1-35-03(C)(10)(a):

a. DP&L's latest SEC Commission Form 10-K, for the period ending December 31, 2012 is attached as Exhibit GSC-1;

b. The Federal Energy Regulatory Commission Form No. 1 for the annual period ending December 31, 2012 is attached as Exhibit GSC-2;

c. DP&L's capital budget requirements are attached as Exhibit GSC-8;

d. Attached as Exhibits 1 and 2 respectively, are the testimony and analysis of Company witness Greg Campbell, and of Dr. Michael Vilbert.

WHEREFORE, DP&L requests that the Commission determine, and find as fact, that for the annual period ending December 31, 2012, DP&L's earnings were not significantly excessive.

Respectfully submitted,

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**The Dayton Power and Light Company**
**Case No. 13-1495-EL-UNC**
**Annual SEET Filing**

# Exhibit 1

**BEFORE THE**

**PUBLIC UTILITIES COMMISSION OF OHIO**

**THE DAYTON POWER AND LIGHT COMPANY**

**CASE NO. 13-1495-EL-UNC**

**ANNUAL CALENDAR 2012 FILING REQUIRED BY RULE 4901:1-35-10, OHIO ADMINISTRATIVE CODE**

**DIRECT TESTIMONY**

**OF GREGORY S. CAMPBELL, CPA**

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

**BEFORE THE**

**PUBLIC UTILITIES COMMISSION OF OHIO**

**DIRECT TESTIMONY OF**

**GREGORY S. CAMPBELL, CPA**

**ON BEHALF OF**
**THE DAYTON POWER AND LIGHT COMPANY**

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## I. INTRODUCTION

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

A. My name is Gregory S. Campbell. My business address is 1065 Woodman Drive, Dayton, Ohio.

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

A. I am employed by The Dayton Power and Light Company ("DP&L" or "Company") as Vice President and Controller.

**Q. How long have you been in your present position?**

A. I assumed my present position in July 2012. Prior to that time, I was the DP&L Director of Accounting Policy and Reporting from June 2008 forward. I was also employed from 1981 through 2008 by American Electric Power, serving in a number of accounting and financial positions with that company.

**Q. What are your responsibilities in your current position and to whom do you report?**

A. In my current position, I am responsible for the accounting and financial reporting of DP&L and its parent company, DPL Inc. I report to the Senior Vice President and Chief Financial Officer of DP&L.

**Q. Will you describe briefly your educational and business background?**

A. I earned a Bachelor of Business Administration degree in Accounting from the College of William and Mary in 1977, and I am a Certified Public Accountant. From 1977 to 1981, I worked for two large public accounting firms: Coopers and Lybrand, and Peat, Marwick and Mitchell. During the years 1981 through 1984, I worked in the Accounting Department of one of American Electric Power's electric operating subsidiaries, Appalachian Power Company. From 1984 until 2008, I worked for the American Electric Power Service Corporation in a variety of jobs, including Accounting Policy and Research for fourteen years, accounting for fiber optic operations, and accounting and financial analysis for regulated and non-regulated operations. In June 2008, I began working at DP&L.

**Q. Have you previously provided testimony before the Public Utilities Commission of Ohio ("PUCO" or the "Commission")?**

A. Yes. I have sponsored testimony before the PUCO on behalf of DP&L in Case No. 08-1094-EL-SSO et alia, Case No. 09-256-EL-UNC, Case No. 11-5730-EL-FAC, and Case Nos. 12-3062-EL-RDR and 12-3266-EL-AAM. I have previously sponsored testimony before the PUCO in a number of cases on behalf of Columbus Southern Power and Ohio Power Company, two subsidiaries of American Electric Power (AEP). My prior testimony included both base rate and fuel cases.

**Q. What is the purpose of this testimony?**

A. The purpose of this testimony is to support the calculation of the Company's Return on Equity (ROE) and provide the accounting and financial information required by Rule 4901:1-35-10 of the Ohio Administrative Code regarding the Significant Excessive Earnings Test (SEET). The comparison of the Company's ROE to that of other publicly traded companies required by Rule 4901:1-35-10 is provided by witness Michael Vilbert.

**Q. What Exhibits are you supporting?**

A. I am supporting Exhibits GSC-1 through GSC-8 attached.

## II. SEET BACKGROUND

**Q. Why is it necessary for DP&L to show that it does not have significantly excessive earnings?**

A. On May 1, 2008, the Governor signed into law Amended Substitute Senate Bill No. 221 (SB 221). This bill amended a number of laws involving electric utilities and requires electric utilities to provide customers with a default Standard Service Offer (SSO) established through either a Market Rate Offer (MRO) or an Electric Security Plan (ESP). Pursuant to the law, the Public Utilities Commission of Ohio (PUCO) is required to evaluate the earnings of each electric distribution utility's approved MRO or ESP and to determine whether the adjustments in the MRO or ESP result in significantly excessive earnings. Certain of the mechanics of the SEET review were included in the PUCO's Finding and Order dated June 30, 2010 in Case No. 09-786-EL-UNC that developed the test pursuant to SB 221.

**Q. Are DP&L's rates based upon an ESP or a MRO?**

A. The rates which DP&L is currently collecting are based on an ESP.

## III. EXHIBITS AND DISCUSSION

**Q. Please list the exhibits for which you are responsible.**

A. I am responsible for the following exhibits:

Exhibit GSC-1: DP&L's calendar 2012 Form 10-K filed with the Securities and Exchange Commission (SEC).

Exhibit GSC-2: DP&L's calendar 2012 Federal Energy Regulatory Commission (FERC) Form 1.

Exhibit GSC-3: Calculation of Per Books Return on Equity

Exhibit GSC-4: Return on Equity Pro Formas

Exhibit GSC-5: Sales for Resale – Net Margin

Exhibit GSC-6: Sales for Resale – Equity Adjustment

Exhibit GSC-7: Major Regulatory Asset Changes

Exhibit GSC-8: Future Ohio Capital Expenditures

**Q. Please explain the contents of Exhibit GSC-1.**

A. Exhibit GSC-1 is the Form 10-K filed with the SEC for DP&L for calendar 2012. Since DP&L files a combined Form 10-K with its parent company DPL Inc., it also includes the Form 10-K filing of DPL Inc. The relevant parts of the DP&L Form 10-K were prepared under my supervision and direction.

**Q. What is included in Exhibit GSC-2?**

A. Exhibit GSC-2 is the FERC Form 1 for DP&L for calendar 2012. It was prepared under my supervision and direction.

**Q. Please explain Exhibit GSC-3, Calculation of Per Books Return on Equity.**

A. Exhibit GSC-3 has two pages that show the per books ROE.

Page 1 shows the return on equity using the unadjusted per books amounts from the FERC Form 1. It produces a ROE of 6.8%.

Page 2 has two adjustments to the per books ROE calculation. The first adjustment removes the estimated penalty recorded in FERC Account No. 426.3 of $280,000 net of tax. This amount is related to the construction of the Carter Hollow landfill at the Stuart Station, where the construction caused sediment to flow into downstream creeks. The second adjustment removes the impairment loss of $52,805,000, net of tax, related to the fixed asset impairment provision recorded in the third quarter of 2012 associated with two of our power plants. The overall per books ROE with the above adjustments is 10.5%.

DP&L did not have any equity returns in its prior ESP case that need to be removed from the calculation of the ROE for the SEET review for calendar 2012.

**Q. What does Exhibit GSC-4, Return on Equity Pro Formas, demonstrate?**

A. Page 1 of Exhibit GSC-4 demonstrates the removal of the margin from sales for resale from the ROE calculation. The Commission Order on Case No. 09-786-EL-UNC requested the presentation of the ROE with and without the sales for resale to determine if they should or should not be included in the SEET.

In a similar manner, Page 2 demonstrates the impact of reducing earnings for backing out the calendar 2012 regulatory asset deferrals/feedbacks to show their effect on the ROE for the SEET. The Commission Order in Case No. 09-786-EL-UNC also requested the presentation of the ROE with and without the regulatory asset deferrals/feedbacks to determine if they should or should not be included in the SEET.

**Q. Please explain the calculations on Page 1 of Exhibit GSC-4.**

A. Exhibit GSC-4, Page 1, has the removal of margin on the sales for resale impacts. I started with the Earnings for Common and Common Equity previously developed on Exhibit GSC-3, Page 2. From the earnings for common, I removed the sales for resale margin, net of tax, to arrive at the adjusted earnings for common. The sales for resale margin is calculated on separate Exhibit GSC-5.

For the common equity, I generally followed the process laid out by PUCO Staff Witness Cahaan in Case No. 10-1261-EL-UNC. That case involved Columbus Southern Power Company and Ohio Power Company, two Ohio subsidiaries of AEP. Witness Cahaan's process reduces the common equity for the portion of the equity related to the generation plant associated with sales for resale. The allocation percentages used on Lines 18 and 19 are calculated on Exhibit GSC-6.

After removing the sales for resale margin and adjusting the common equity, the ROE for 2012 is 10.2%. I believe that this figure is the appropriate amount to begin the comparison to other electric utilities during the SEET review. The SEET review should review only significantly excessive earnings associated with the Ohio jurisdiction, and should not include Company returns that are regulated by the FERC. In addition, Ohio jurisdictional customers are paying rates for retail service and do not have any interest in the assets that produce those services.

**Q. Please explain the calculations on Page 2 of Exhibit GSC-4.**

A. Exhibit GSC-4, Page 2, demonstrates the removal of the regulatory asset deferral from earnings and equity. I started with the Earnings for Common and Common Equity previously developed on Exhibit GSC-3, Page 2. From the earnings for common, I removed the regulatory asset deferral/feedback impacts for 2012, net of tax, to arrive at the adjusted earnings for common. The regulatory asset deferral is calculated on separate Exhibit GSC-7. For calendar year 2012 it was a net deferral.

For the common equity, I also removed the regulatory asset deferral/feedback from the December 31, 2012 equity.

After removing the impact on earnings for common and adjusting the common equity, the pro forma ROE for 2012 is 10.2%.

**Q. Please explain Exhibit GSC-5, Sales for Resale – Net Margin.**

A. Exhibit GSC-5 contains an estimated summary of the net margin on sales for resale by month in calendar 2012, both before tax and after tax. It is calculated from the records of the Company.

**Q. What are the calculations on Exhibit GSC-6, Sales for Resale – Equity Adjustment?**

A. This exhibit develops the equity adjustment percentages used in determining the equity associated with Ohio Retail Jurisdictional SSO customers in Exhibit GSC-4, Page 1, by providing the ratios used to back out the equity associated with generation relating to sales for resale customers. The top portion of the exhibit calculates the ratio of sales for resale dollars in calendar 2012 to the sum of the sales to ultimate customers and sales for resale customers. There is an adjustment needed on Line 5 of the exhibit to remove the PJM Interconnection revenues included in FERC Account No. 447 that are associated with Ohio Retail Jurisdictional SSO customers. An example would be for the portion of the PJM Interconnection auction revenues that are part of the Reliability Pricing Model (RPM) Rider.

The bottom portion of the exhibit averages the net book value of the production plant for the year and compares it to the net book value of all of the plant for the year.

This exhibit generally follows the process laid out by PUCO Witness Cahaan in Case No. 10-1261-EL-UNC.

**Q. Please explain the major regulatory asset changes on Exhibit GSC-7.**

A. On Exhibit GSC-7, Page 1 summaries the major regulatory asset changes for calendar 2012 before tax and after tax impacts. The other pages in the exhibit show the monthly changes in regulatory assets for each major regulatory asset and their before and after tax impacts.

**Q. Please explain Exhibit GSC-8, Future Estimated Ohio Capital Expenditures.**

A. Exhibit GSC-8 shows the future estimated Ohio jurisdictional capital expenditures for each of the calendar years 2013 through 2017. It is based on information from DP&L's ESP case, Case No. 12-426-EL-SSO et alia.

The Commission could use this forecast to adjust the appropriate ROE for the SEET review if the Company was expecting major capital investments, such as building a new coal-fired power plant or facing a tremendous capital need. I did not adjust the 2012 ROE to consider these planned investments.

**Q. Please discuss some additional items that may be of consideration in the course of a SEET review.**

A. On page 29 of its June 30, 2010 Order in Case No. 09-786-EL-UNC, the Commission provided a list of factors that are worthy of consideration in a SEET review. The factors included:

- The electric utility's recently authorized return on equity;
- Whether the electric utility owns generation;
- Whether the ESP includes a fuel and purchased power adjustment or similar adjustment;
- The rate design and extent to which the electric utility remains subject to weather and economic risk;
- Capital commitments and future capital requirements;
- Indicators of management performance and benchmarks to other utilities;
- Innovation and industry leadership with respect to meeting industry challenges to maintain and improve the competitiveness of Ohio's economy, including research and development expenditures, investments in advanced technology, and innovative practices; and
- The extent to which the electric utility has advanced the state policy.

**The following questions and answers deal with these factors.**

**Q. What is DP&L's most recently approved ROE?**

A. In Case No. 08-1094-EL-SSO et alia approved by the PUCO on June 24, 2009, I understand that the ROE recommended by witness Jeff D. Mackholm for DP&L was 11.3%, which is DP&L's most recently approved return.

**Q. Does DP&L own generation assets?**

A. Yes, at December 31, 2012, DP&L had about 3,800 MW of generation assets (summer MW rating).

**Q. Is the Company currently recovering fuel and purchased power from SSO customers?**

A. Yes, DP&L has a fuel and purchased power rider that enables it to collect prudently incurred costs from its SSO customers.

**Q. Would you please describe the Company's rate design in general and its weather and economic risk?**

A. The Company has different rates for different types of service (e.g. residential, residential heating, secondary, primary, high voltage). Depending on the rate class, customers may have energy-based rates, demand-based rates, or a combination of both. All customers have some form of a customer charge and some non-residential rates have a demand ratchet provision intended to encourage efficient use of resources. DP&L does not currently have any rate design mechanisms in place to mitigate weather or economic risk.

**Q. Will you address the capital commitments and capital requirements of DP&L?**

A. These factors have already been addressed on attached Exhibit GSC-8.

**Q. Have you compared DP&L to other utilities in terms of its management performance?**

A. Yes, the two large power plants that DP&L runs had lower heat rates than some other Ohio utilities' power plants. This produces an overall cost saving. In calendar 2012 the Stuart Plant had a heat rate of 11,347 and the Killen Plant had a heat rate of 11,701. The heat rate is an indication of how many BTUs of energy need to be consumed to produce electricity to serve customers. A lower heat rate is indicative of greater plant efficiency.

In addition, for the period 2010 through 2012, DP&L outperformed reliability standards set forth and approved by the PUCO. In all three years, DP&L performed better than its System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI) standards for reliability by having fewer outages per customer and shorter average outage durations.

**Q. Please describe some of the innovations and industry leadership characteristics of DP&L.**

A. DP&L's Customer Solutions Center has recently been named as a "Certified Center of Excellence" by Benchmark Portal, an independent rating organization. DP&L's Center had a lower cost per call to respond to customers' calls and a faster speed in answering their calls than other utilities' call centers.

**Q. Has DP&L advanced state policies over time?**

A. Yes, the Company has advanced and continues to advance the policies of the state as outlined in the Ohio Revised Code Section 4928.02. For example, Section 4928.02(A) states that it is the policy of the state to: "Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service." As I describe above, DP&L has consistently exceeded the state's reliability standards and DP&L provides nondiscriminatory and reasonably priced retail electric service through its PUCO approved tariffs. Another example is that Section 4928.02(M) states that it is the policy of the state to: "Encourage the education of small business owners in the state regarding the use of, and encourage the use of, energy efficiency programs and alternative energy resources in their business." Throughout 2009 DP&L launched a wide variety of energy efficiency programs, to all customers, including small business owners.

## IV. CONCLUSION

**Q. Please summarize your testimony.**

A. In summary, I believe the appropriate measure of the ROE for DP&L for calendar 2012 to be compared to other electric utilities is the 10.2% ROE calculated on Exhibit GSC-4, Page 1 of 2. Based upon this 10.2% ROE, DP&L does not have excessively excess earnings in calendar 2012.

**Q. Does this conclude your direct testimony?**

A. Yes, it does.

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