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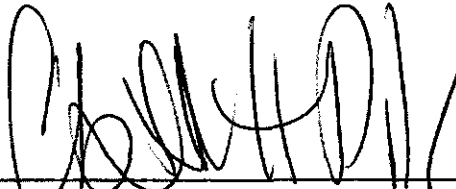
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❖ Summary of document:

Direct Testimony of Timothy D. Zeidenrost

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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AT&T OHIO,

Complainant,

v.

THE DAYTON POWER & LIGHT
COMPANY,

Respondent.

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Case No. 06-1509-EL-CSS

DIRECT TESTIMONY

OF

TIMOTHY D. ZELDENRUST

On Behalf of

AT&T OHIO

AT&T Ex. ____

Dated: August 31, 2007

CONFIDENTIAL VERSION

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. PURPOSE OF TESTIMONY	2
III. USE OF THE FCC POLE COST FORMULA	2
IV. ADJUSTMENTS TO DP&L'S CALCULATION	5
A. ELIMINATION OF THE PASS-THROUGH TAXES RELATED TO A KWH EXCISE TAX FROM THE TAXES ELEMENT OF THE DP&L 2005 CALCULATION	6
B. ELIMINATION OF MAINTENANCE EXPENSES UNRELATED TO POLES FROM THE MAINTENANCE ELEMENT OF THE DP&L 2005 CALCULATION	8
C. ADJUSTMENT TO PROPERLY REFLECT THE REGULATORY LIABILITY RELATED TO COST OF REMOVAL OF THE DP&L 2005 CALCULATION OF NET BOOK VALUE	14
D. REVISION OF THE POLES DEPRECIATION RATE TO REFLECT AN ACTUAL RATHER THAN AN ESTIMATED RATE	19
E. ADMINISTRATIVE ELEMENT OF THE DP&L 2005 CALCULATION	19
F. SPACE FACTOR	20
V. CONCLUSION	20

1 **I. INTRODUCTION**

2 **Q1. PLEASE STATE YOUR NAME, BY WHOM YOU ARE EMPLOYED, YOUR**
3 **TITLE, AND YOUR BUSINESS ADDRESS.**

4 A1. My name is Timothy D. Zeldenrust. I am employed by Huron Consulting Group as a
5 Director. My business address is 550 West Van Buren Street, Chicago, Illinois 60607.

6 **Q2. WHAT ARE YOUR JOB RESPONSIBILITIES?**

7 A2. I am a Director at Huron Consulting Group in the Legal and Financial Consulting group.
8 Within this group, I perform accounting, litigation and regulatory consulting services,
9 specializing in utility, cable television and telecommunications industries.

10 **Q3. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

11 A3. I attended Carthage College in Kenosha, Wisconsin. I obtained a Bachelor of Arts degree
12 and majored in Accounting and Business Administration. I am also a Certified Public
13 Accountant.

14 **Q4. PLEASE OUTLINE YOUR WORK EXPERIENCE.**

15 A4. From 1985 to 1993 I worked at Arthur Andersen LLP within the Utilities and
16 Telecommunications Division and served as an auditor to clients focused mainly in the
17 utility, telecommunication and cable television industries. From 1993 to 1994 I worked
18 as a financial analyst for Journal Communications, Inc., a Milwaukee-based
19 communications company. I worked directly for the Vice President and Controller and
20 performed various financial tasks including SEC financial reporting, income tax
21 preparation, due diligence, and internal audits. I returned to Arthur Andersen LLP in
22 1994 as a manager and joined the Financial and Economic Consulting Division and
23 continued to work there through 2002. I was extensively involved in financial, regulatory
24 and cost accounting matters in the telecommunications, utility and cable television

1 industries. I joined Huron Consulting Group in 2002. At Huron I have worked on
2 accounting, litigation and regulatory matters across various industries.

3 **II. PURPOSE OF TESTIMONY**

4 **Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A5. The purpose of my testimony is to analyze the 2005 Pole Attachment Calculation
6 prepared by the Dayton Power and Light Company ("DP&L") and identify revisions to
7 the calculation that are necessary to more accurately compute DP&L's pole-related costs.

8 **Q6. CAN YOU PLEASE EXPLAIN THE STARTING POINT OF YOUR ANALYSIS?**

9 A6. Yes. The starting point of my analysis was DP&L's 2005 Pole Attachment Calculation
10 of \$45.49 per pole per year. This document is identified as DPL-04193.

11 **III. USE OF THE FCC POLE COST FORMULA**

12 **Q7. WHAT COST MODEL DID DP&L USE TO CALCULATE THE 2005 POLE**
13 **ATTACHMENT RATE?**

14 A7. Based on my review of its calculation, DP&L used what is identified as the "Cable
15 Formula" in FCC 01-170, *Consolidated Partial Order on Reconsideration*, In the Matter
16 of Amendment of Commission's Rules and Policies Governing Pole Attachments, In the
17 Matter of Implementation of Section 703(e) of the Telecommunications Act of 1996, CS
18 Docket Nos. 97-98, 97-151, FCC 01-170 (rel. May 25, 2001) ("Order on
19 Reconsideration"). Appendix D-2 of the Order on Reconsideration shows the electric
20 utility computation of the Cable Formula. This formula is based on fully allocated
21 historical costs and application of the Cable Formula results in the *maximum* rate that can
22 be charged by a pole owner. As paragraph 8 of the Order on Reconsideration notes,
23 "Section 224(d)(1) of the Pole Attachment Act defines a just and reasonable rate as
24 ranging from the statutory minimum based on the additional costs of providing pole

1 attachments, to the statutory maximum based on fully allocated costs. The additional or
2 incremental costs are the costs that would not be incurred by the utility but for the pole
3 attachments. The maximum rate, identified as a percentage of fully allocated costs, refers
4 to the portion of operating expenses and capital costs that a utility incurs in owning and
5 maintaining pole attachment infrastructure that is equal to the portion of space on a pole,
6 or capacity of a duct, conduit, or right of way, that is occupied by an attacher. The
7 Commission adopted a methodology to determine the maximum allowable pole
8 attachment rate under Section 224(d)(1) of the Pole Attachment Act which is referred to
9 as the Cable Formula.”

10 **Q8. IS USE OF THE CABLE FORMULA AS DEFINED BY THE FCC IN THE**
11 **ORDER ON RECONSIDERATION MANDATORY TO ESTABLISH POLE**
12 **ATTACHMENT RATES?**

13 A8. No. The Cable Formula defines the *maximum* rate to be charged in those states where the
14 FCC has jurisdiction over pole rates.

15 **Q9. DOES THE FCC HAVE JURISDICTION OVER POLE RATES IN THIS**
16 **PROCEEDING?**

17 A9. No. Ohio is one of the states that is certified to regulate poles and has elected to exercise
18 jurisdiction over pole rates.

19 **Q10. HOW DOES THE JOINT POLE LINE AGREEMENT POLE RENTAL**
20 **CONTRACT (“JOINT POLE AGREEMENT”) DEFINE HOW THE POLE**
21 **RENTAL RATE SHOULD BE SET?**

22 A10. Article XIII, Periodic Readjustment of Rentals, of the Joint Pole Agreement sets forth
23 how a new rate is to be established for the joint poles of DP&L and AT&T. It states “At
24 the expiration of five (5) years from the date of this agreement, and at the end of every
25 five (5) year period thereafter, the rental per pole per annum thereafter payable hereunder
26 shall be subject to readjustment at the request of either party made in writing to the other

1 not later than sixty (60) days before the end of any such five (5) year period. If within
2 sixty (60) days after the receipt of such a request by either party from the other, the
3 parties hereto shall fail to agree upon a readjustment of such rental, then the rental per
4 pole per annum so to be paid shall be an amount equal to one-half of the then average
5 total annual cost per pole of providing and maintaining the standard joint poles covered
6 by this agreement.”

7 **Q11. HOW DOES THIS DEFINITION OF THE RATE DIFFER FROM THE CABLE**
8 **FORMULA?**

9 A11. First, the Cable Formula is based on fully allocated costs. The Joint Pole Agreement
10 does not make clear whether the rates are to be calculated on a fully allocated basis,
11 incremental basis or some other basis. Second, it is my understanding that the Joint Pole
12 Agreement specifies that 50% of the total costs of the joint use poles be used to determine
13 the rate, whereas the Cable Formula determines the rate by multiplying the pole costs by
14 a ratio of the space used on the pole over the total usable space on the pole.

15 **Q12. IF THE COMMISSION WERE TO LOOK TO THE FCC CABLE FORMULA TO**
16 **DETERMINE THE RENTAL RATE BETWEEN DP&L AND AT&T IN THIS**
17 **PROCEEDING, IS DP&L'S CALCULATION APPROPRIATE?**

18 A12. No. I believe that several modifications to the DP&L's Cable Formula are necessary
19 based on an analysis of pole-related costs. As noted above, the Cable Formula was
20 generally intended by the FCC to be a simple calculation to arrive at a maximum rate that
21 can be charged. It is totally appropriate and reasonable to make refinements to the Cable
22 Formula, especially when application of the Cable Formula results in the inappropriate
23 allocation of costs to poles.

1 **IV. ADJUSTMENTS TO DP&L'S CALCULATION**

2 **Q13. WHAT TYPES OF ADJUSTMENTS ARE YOU PROPOSING TO DP&L'S**
3 **CALCULATION?**

4 A13. I identified several types of adjustments to DP&L's calculation. The first item represents
5 revised inputs for accumulated depreciation related to poles. This was necessary due to
6 the accounting treatment of cost of removal amounts. I am proposing an adjustment to
7 remove certain expenses which are unrelated to poles. Last, I am proposing a revised
8 depreciation rate. Each of the adjustments is described below.

9 **Q14. CAN YOU SUMMARIZE THE RESULTS OF YOUR CALCULATION?**

10 A14. Yes, my results are summarized in Exhibits TZ-1, TZ-2, and TZ-3. Exhibit TZ-1 is a
11 revised pole cost calculation and includes the adjustments I describe below. The
12 resulting Annual Rate for the year ending December 31, 2005, assuming a 50% space
13 factor, is \$27.40, compared to the \$45.49 calculated by DP&L. Exhibit TZ-2 is a
14 schedule of 2005 calendar year expenses used in the DP&L 2005 Calculation. The first
15 column of the Exhibit shows the amounts used by DP&L in its calculation and an
16 "Adjustment" column and an "As Adjusted" column portray the adjustments that I
17 describe below. Exhibit TZ-3 is a schedule of the various net book value calculations for
18 Poles, Distribution Plant Related to Account 593, Distribution Plant and Electric Plant in
19 Service. The first column of the Exhibit shows the amounts used by DP&L in its
20 calculation and an "Adjustment" column and an "As Adjusted" column portray the
21 adjustments to net book value that I describe below.

22 **Q15. WHAT SPECIFIC ADJUSTMENTS DID YOU MAKE TO THE DP&L**
23 **CALCULATION ("DP&L 2005 CALCULATION")?**

24 A15. I made the following adjustments to the DP&L 2005 calculation:

- 1 • Elimination of the pass-through taxes related to a Kwh excise tax from the Taxes
- 2 Element of the DP&L 2005 Calculation
- 3 • Elimination of maintenance expenses unrelated to poles from the Maintenance
- 4 Element of the DP&L 2005 Calculation
- 5 • Adjustment to properly reflect the regulatory liability related to pole cost of
- 6 removal in the DP&L 2005 Calculation of Net Book Value
- 7 • Revision of the pole depreciation rate to reflect an actual rather than an estimated
- 8 rate

9 **A. ELIMINATION OF THE PASS-THROUGH TAXES RELATED TO A**
10 **KWH EXCISE TAX FROM THE TAXES ELEMENT OF THE DP&L 2005**
11 **CALCULATION**

12 **Q16. CAN YOU PLEASE EXPLAIN BRIEFLY THE TAXES ELEMENT OF THE**
13 **DP&L 2005 CALCULATION?**

14 A16. Yes. The DP&L 2005 Calculation includes a taxes element, as contemplated by the
15 Cable Formula. The taxes element for the DP&L 2005 Calculation includes taxes of
16 \$225,740,659 (DPL-04193, row 46). The items which comprise the \$225,740,659 are
17 reflected on Exhibit TZ-2 under the caption "Taxes". The main items are Federal, state
18 and local income taxes, property taxes, franchise taxes and the Kwh excise tax.

19 **Q17. WHAT IS THE KWH EXCISE TAX?**

20 A17. In response to request number 10 of AT&T Ohio's Fourth Set of Data Requests, DP&L
21 stated that it recovers the Kwh excise taxes directly from its electric customers through a
22 rate rider. DP&L records these amounts as operating revenues. As such, the Kwh excise
23 tax is a pass-through tax for which DP&L has a net cost of zero.

24 **Q18. DO YOU BELIEVE THAT THE KWH EXCISE TAX IS APPROPRIATE TO**
25 **INCLUDE IN THE TAXES ELEMENT OF THE DP&L 2005 CALCULATION?**

26 A18. No.

1 **Q19. WHY NOT?**

2 A19. There are several reasons. The first reason is that this tax is totally unrelated to poles.
3 The driver of the tax is sales of kilowatt hours of electricity to customers. Second, as
4 DP&L concedes, it recovers the Kwh excise taxes directly from customers through a rate
5 rider. DP&L is essentially acting as an agent for collection of the Kwh excise tax and
6 remittance of the proceeds to the government. DP&L has reflected the revenues from the
7 rate rider in its financial statements which equate to the Kwh excise tax expense.
8 DP&L's net expense related to the Kwh excise tax is zero. To allow recovery of this
9 amount in the taxes element of the DP&L 2005 Calculation would be double-recovering
10 by DP&L.

11 **Q20. DO YOU HAVE ANY OTHER INFORMATION WHICH SUPPORTS YOUR**
12 **ASSERTION THAT THE KWH TAX SHOULD BE ELIMINATED?**

13 A20. Yes, the fact that the net impact of pass-through taxes is zero is addressed in a recent
14 accounting pronouncement issued by the Emerging Issues Tax Force ("EITF"). EITF
15 Issue 06-3 is entitled "How Taxes Collected from Customers and Remitted to
16 Governmental Authorities Should be Presented in the Income Statement (That is, Gross
17 versus Net Presentation)." The EITF concluded that the presentation could either be on a
18 gross basis (included in revenues and costs) or a net basis (excluded from revenues). The
19 fact that one option is a net basis supports that there really is zero cost because DP&L is
20 made whole with respect to the Kwh tax by its electric customers.

21 **Q21. CAN YOU QUANTIFY THE ADJUSTMENT YOU PROPOSE RELATED TO**
22 **THE KWH EXCISE TAX?**

23 A21. Yes. The full amount of the Kwh excise tax of \$52,901,994 as shown on Exhibit TZ-2
24 should be removed from DP&L's calculations. I have adjusted the costs used in the Tax
25 Element calculation from \$225,740,659 to \$172,838,665.

1 **B. ELIMINATION OF MAINTENANCE EXPENSES UNRELATED TO**
2 **POLES FROM THE MAINTENANCE ELEMENT OF THE DP&L 2005**
3 **CALCULATION**

4 **Q22. CAN YOU PLEASE EXPLAIN THE MAINTENANCE ELEMENT OF THE**
5 **DP&L 2005 CALCULATION?**

6 A22. Yes. The DP&L 2005 Calculation includes a maintenance element as contemplated by
7 the Cable Formula. The maintenance element indicated in the FCC Order on
8 Reconsideration for electric utilities uses as a numerator the total maintenance expense
9 recorded in Federal Energy Regulatory Commission ("FERC") Account 593
10 "Maintenance of Overhead Lines". The denominator for the maintenance element is the
11 net book value of the sum of FERC fixed asset accounts 364 Poles, Towers and Fixtures,
12 365 Overhead Conductors and 369 Services.

13 **Q23. WHAT IS YOUR OPINION OF THE FCC'S METHOD OF DEVELOPING THE**
14 **MAINTENANCE FACTOR FOR THE POLE COST CALCULATION?**

15 A23. The problem the FCC was faced with related to determining true pole maintenance costs.
16 Any pole maintenance costs that an electric utility company incurs are commingled with
17 costs related to overhead lines in Account 593. The method reflected in the Order on
18 Reconsideration would only result in an accurate pole maintenance expense to the extent
19 the actual maintenance activities within account 593 were in direct proportion to the
20 related plant balances of Poles, Overhead Conductors and Services.

21 **Q24. WHAT TYPES OF MAINTENANCE ACTIVATES ARE ALLOWED TO BE**
22 **CHARGED TO ACCOUNT 593?**

23 A24. Please see the attached excerpt from the FERC chart of accounts, which I have identified
24 as Exhibit TZ-6. There are the following three major categories of costs included in
25 Account 593:

- 26 • Work of the following character on poles, towers and fixtures (13 items are listed)

1 • Work of the following character on overhead conductors and devices (12 items
2 are listed including: g.) standing by phones, going to calls, cutting faulty lines
3 clear, or similar activities at times of emergencies, and k.) trimming trees and
4 clearing brush)

5 • Work of the following character on overhead services (4 items are listed)

6 In my opinion, only the items in the first bullet above are arguably allowed under the
7 Joint Pole Agreement, as they are the only activities plausibly related to poles, as opposed
8 to other electric company infrastructure.

9 **Q25. WHAT DOES THE JOINT POLE AGREEMENT INDICATE REGARDING THE**
10 **TYPES OF ALLOWABLE MAINTENANCE EXPENSE?**

11 A25. As summarized above, the Joint Pole Agreement allows the rate to be set based on the
12 “average total annual cost per pole of providing and maintaining the standard joint poles
13 covered by this agreement.” In my opinion, this limits the maintenance expense in the
14 cost calculation to only pole maintenance expense.

15 **Q26. DOES THE JOINT POLE AGREEMENT REFERENCE TREE TRIMMING AT**
16 **ALL?**

17 A26. Yes. Article I indicates “Transferring and rearranging include any tree cutting or
18 trimming incidental thereto and the obtaining of all necessary rights or permits therefor.”
19 Transferring and rearranging are also defined in Article I. Transferring is movement of
20 attachments from one pole to another and rearranging is the movement of attachments on
21 a pole. Attachments are defined as “[a]ny material or apparatus now or hereafter used by
22 either party in the construction, operation or maintenance of its plant carried on poles.”
23 The association of initial tree trimming with attachments rather than poles is consistent

1 with my opinion that tree trimming is not related to poles. Accordingly, tree trimming
2 maintenance functions are also associated with attachments rather than poles.

3 **Q27. DOES THE POLE AGREEMENT SPECIFY HOW MAINTENANCE RELATED**
4 **TO ATTACHMENTS SHOULD BE HANDLED?**

5 A27. Yes. Article VII (b) indicates “each party shall, at its own expense, place, maintain,
6 rearrange, transfer and remove its own attachments and shall at all times perform such
7 work promptly and in such a manner as not to interfere with the service of the other
8 party.” This makes it clear that the costs of both tree trimming and routine maintenance
9 of DP&L’s overhead lines are DP&L’s responsibility and should not be part of the pole
10 cost calculation. DP&L has inappropriately included these amounts in its maintenance
11 element as I describe below.

12 **Q28. WHAT DO YOU BELIEVE IS THE APPROPRIATE METHOD OF**
13 **ATTRIBUTING MAINTENANCE ACTIVITIES CHARGED TO ACCOUNT 593?**

14 A28. The costs listed in the second and the third bullet points under Account 593 should be
15 excluded from the maintenance element in the DP&L 2005 Calculation. Clearly the
16 FERC Chart of Accounts is describing three distinct sets of activities applicable to the
17 three distinct asset accounts for which maintenance expense activities are recorded in
18 Account 593. This method is directly in line with arriving at the pure pole maintenance
19 amounts as required under the Joint Pole Agreement. With respect to the first bullet, I
20 would note that some of the costs are related to “fixtures,” not poles, such as item 1g -
21 “[r]elocating crossarms, racks, brackets and other fixtures on poles.” However, as
22 discussed below, it does not appear that DP&L has significant costs related to those
23 activities.

1 **Q29. CAN YOU EXPLAIN WHAT TYPES OF COSTS ARE IN DP&L'S ACCOUNT**
2 **593?**

3 A29. Yes, the main components of costs reflected in this account are in accounts 5930000 and
4 5930007. These amounts can be seen on Exhibit TZ-2 under "Maintenance of Overhead
5 Lines" and represent approximately 99% of the account balance in Account 593 for the
6 year ended December 31, 2005. Based on DP&L's responses to Request Nos. 5 and 6 of
7 AT&T Ohio's Fourth Set of Data Requests most of the costs in Account 5930000, which
8 total \$9,162,800 for the year ended December 31, 2005, are related to "routine
9 maintenance of our distribution overhead lines and minimal costs for line clearance
10 necessary during storm restoration." Account 5930007, which totals \$5,915,632 for the
11 year ended December 31, 2005, is nearly 100% tree trimming based upon DP&L's
12 responses to Request Nos. 5 and 6 of AT&T Ohio's Fourth Set of Data Requests.

13 **Q30. WHAT IS THE SIGNIFICANCE OF DP&L RESPONSES TO THESE TWO**
14 **DATA REQUESTS?**

15 A30. Its responses confirm that the amounts recorded in Account 593 for the year ended
16 December 31, 2005 are largely comprised of tree trimming costs, line clearance costs,
17 and routine and storm related maintenance of overhead lines, each of which is applicable
18 to FERC Account 365 Overhead Conductors and/or Account 369 Overhead Services. As
19 I explain above, only maintenance activities related to poles should be included in the
20 maintenance element. I have therefore eliminated 100% of Account 593 from the
21 maintenance element of the DP&L 2005 Calculation and I have revised the denominator
22 of this calculation to reflect only Account 364.

1 **Q31. HOW DOES DP&L VIEW TREE TRIMMING?**

2 A31. Based on the deposition transcript of Mr. John Kenton at pages 84-86, DP&L views tree
3 trimming as totally distinct from maintenance activities related to poles. See Exhibit TZ-
4 7.

5 **Q32. HAVE YOU REVIEWED DP&L'S ENGINEERING STANDARDS RELATED TO**
6 **TREE TRIMMING?**

7 A32. Yes, they are identified as Electric Engineering Standards Section 51. These are attached
8 as Exhibit TZ-8. These standards do not mention these activities in relation to poles but
9 rather refer to performing tree trimming to ensure that electric lines do not accidentally
10 electrocute people or come into extensive contact with foliage.

11 **Q33. DOES DP&L PERFORM TREE TRIMMING ONLY ON TREES ADJACENT TO**
12 **ITS OWN POLES?**

13 A33. No. Mr. Kenton, at pages 105-106 of his deposition, indicates that tree trimming is done
14 to clear the electrical conductors without regard to who owns the pole to which the
15 electrical conductors are attached. In other words, the tree trimming performed by DP&L
16 is not limited to only the electrical conductors adjacent to DP&L owned poles. See
17 Exhibit TZ-7.

18 **Q34. WHAT IS THE SIGNIFICANCE OF THE FACT THAT DP&L PERFORMS**
19 **TREE TRIMMING ON TREES ADJACENT TO POLES OWNED BY OTHER**
20 **PARTIES?**

21 A34. It demonstrates and reinforces my opinion that tree trimming is not pole maintenance. It
22 has no relationship to poles but rather is a function performed related to overhead
23 electrical lines.

1 **Q35. DID THE FCC COMMENT ON WHETHER TREE TRIMMING COSTS**
2 **SHOULD BE INCLUDED IN THE POLE COSTS IN THE ORDER ON**
3 **RECONSIDERATION?**

4 A35. Yes, in Paragraph 122 of the Order on Reconsideration, the FCC states that "the accounts
5 suggested by petitioners include capital expenditures which support the utility's core
6 business function and are not related to pole costs. For instance, petitioners would like to
7 include tree trimming from Account 365 (overhead conductors and devices) in the pole
8 investment calculation. However, tree trimming in that account is related to the overhead
9 conductors which relate to the core business function of the utility. Any excavation
10 relating to installation of the pole itself, including disposal of excess material, is already
11 included in Account 364. If tree trimming is required as part of make-ready activity to
12 provide for installation of an attaching entity's pole attachment, the attacher reimburses
13 that amount as part of make-ready charges." This statement confirms my assertion that
14 tree trimming, whether in capital or expense accounts, directly relates to Account 365
15 Overhead Conductors and does not relate to poles or pole maintenance.

16 **Q36. DO YOU HAVE ANY OTHER INFORMATION WITH RESPECT TO TREE**
17 **TRIMMING THAT SUPPORTS YOUR POSITION THAT IT DOES NOT**
18 **RELATE TO POLE MAINTENANCE?**

19 A36. Yes. In more recent Joint Pole Agreements that DP&L has executed with telephone
20 companies other than AT&T, tree trimming is specifically addressed. A sample contract
21 is attached as Exhibit TZ-9. Section 10 is entitled "Right of Way, Guys, Tree Trimming,
22 Etc." Section 10.1 provides: "Each party shall be responsible for securing its own
23 necessary rights of way, anchor privileges, tree trimming and removal rights, and guying
24 privileges from property owners or from municipal, state, or governmental authorities. It
25 is understood, however, that the parties hereto shall cooperate in obtaining any right of
26 way necessary to be used for any jointly used pole or anchor. Each party shall perform at

1 its own expense the necessary tree trimming to properly clear its own attachments. If any
2 tree removal is beneficial to each of the parties hereto, the cost of such removal shall be
3 shared by the parties.” DP&L acknowledges by this language that tree trimming is
4 unrelated to poles and requires that each party do its own tree trimming to clear its own
5 attachments. DP&L is performing tree trimming solely for its own behalf, so it makes no
6 sense to include these amounts in the pole cost calculation. Any mutually beneficial tree
7 trimming should be negotiated between the parties by separate arrangement.

8 **C. ADJUSTMENT TO PROPERLY REFLECT THE REGULATORY**
9 **LIABILITY RELATED TO COST OF REMOVAL OF THE DP&L 2005**
10 **CALCULATION OF NET BOOK VALUE**

11 **Q37. CAN YOU BRIEFLY DESCRIBE THE REGULATORY LIABILITY DP&L HAS**
12 **ON ITS BOOKS RELATED TO COST OF REMOVAL?**

13 A37. Yes, based on my review of DP&L’s 2003 10-K, DP&L was required under Statement of
14 Financial Accounting Standard No. 143, Accounting for Asset Retirement Obligations
15 (“SFAS No. 143”) to reclassify from accumulated depreciation to a regulatory liability
16 the transmission and distribution cost of removal amount collected from customer in
17 rates. DP&L’s depreciation rates for transmission and distribution continue to recover
18 cost of removal and additional amounts have been recorded in the regulatory liability
19 account each year subsequent to 2003.

20 **Q38. HOW MUCH IS THIS REGULATORY LIABILITY AS OF DECEMBER 31,**
21 **2005?**

22 A38. The amount is \$81,715,123.

23 **Q39. HOW DID DP&L HANDLE THIS AMOUNT IN THE DP&L 2005**
24 **CALCULATION?**

25 A39. It appears that DP&L did not address this item.

1 **Q40. WAS IT APPROPRIATE FOR DP&L TO IGNORE THE REGULATORY**
2 **LIABILITY RELATED TO COST OF REMOVAL?**

3 A40. No. These amounts should be considered just like accumulated depreciation for purposes
4 of determining net book value. The cost of removal amounts are reflected in depreciation
5 expense and were moved to a regulatory liability as a result of an accounting
6 pronouncement.

7 **Q41. IS THE TREATMENT OF COST OF REMOVAL AMOUNTS COLLECTED IN**
8 **ADVANCE MENTIONED IN THE FCC ORDER ON RECONSIDERATION?**

9 A41. Yes. In the Order on Reconsolidation, the FCC indicates in paragraph 39: "On
10 reconsideration, we find that our approach in the Fee Order failed to acknowledge that
11 the utilities' recovery through depreciation of future costs of removing poles should be
12 reflected in the rate." The main context of this discussion centered around the possibility
13 of a negative net book value because of accumulated depreciation in excess of gross
14 plant. Later in paragraph 41, the FCC expands on this by stating "[t]he rate of return
15 element will be negative and is subtracted from the positive elements of the carrying
16 charge. We believe this result is reasonable because the utility has, in effect, already
17 recovered more than the original cost of its pole plant through depreciation charges.
18 While this 'over-recovery' is necessary to defray the costs of disposing of the poles when
19 they are retired from service, the utility has the use of the 'over-recovered' amounts
20 throughout the poles' useful lives. Our conclusion is that the utility's pole attachment
21 rates should reflect the over-recovery in the form of a negative rate of return carrying
22 charge properly recognizes this fact." This makes it clear that to ignore the cost of
23 removal amounts collected in advance in the DP&L 2005 calculations is improper.

1 **Q42. DOES THE AT&T OHIO POLE COST CALCULATION CONSIDER THE COST**
2 **OF REMOVAL IN ITS CALCULATION?**

3 A42. Yes. It is my understanding that the net book value of AT&T Ohio poles is negative as a
4 result of the cost of removal component of accumulated depreciation. To include the
5 impacts of cost of removal for telephone companies and to exclude it for electric utilities
6 is inconsistent with logic and sound ratemaking. These amounts were collected in rates
7 and essentially are to be held until actual cost of removal takes place in the future.

8 **Q43. DID THE FERC RULE ON THE REGULATORY ACCOUNTING TREATMENT**
9 **OF COST OF REMOVAL AMOUNTS COLLECTED IN ADVANCE WHICH**
10 **ARE NOT LEGAL OBLIGATIONS?**

11 A43. Yes. On April 9, 2003, the FERC issued Order 631 in Docket No. RM02-7-000,
12 Accounting, Financial Reporting and Rate Filing Requirements for Asset Retirement
13 Obligations. This order distinguishes between legal retirement obligations which are
14 required by law and obligations that are not required by law. The cost of removal
15 amounts collected in advance by DP&L do not constitute legal obligations. The Order
16 states in Paragraph 36, "As proposed in the NOPR, the rule applies to legal obligations
17 associated with the retirement of tangible long-lived assets. Under the existing
18 requirements of the Uniform System of Accounts removal costs that are not asset
19 retirement obligations are included as a component of the depreciation expense and
20 recorded in accumulated depreciation." The FERC later states in the same paragraph that
21 "[t]he Commission did not propose any changes to its existing accounting requirements
22 for cost of removal for non-legal retirement obligations."

23 **Q44. CAN YOU SUMMARIZE WHAT THIS MEANS?**

24 A44. Yes. This means that the FERC still considers the cost of removal amounts collected in
25 advance as a component of accumulated depreciation for regulatory accounting purposes,

1 regardless of the fact that DP&L has recorded this amount as a regulatory liability rather
2 than in accumulated depreciation for GAAP purposes.

3 **Q45. HOW DID YOU QUANTIFY THE POLES-RELATED COST OF REMOVAL**
4 **AMOUNTS RECORDED IN REGULATORY LIABILITIES?**

5 A45. I obtained information from the PUCO website filed by DP&L on March 31, 2005 under
6 Docket No. 05-1000-EL-UNC, and identified as the "Annual Report of the Dayton Power
7 and Light Company." This information included accumulated depreciation amounts from
8 the most recent depreciation study (in 1989) which showed the theoretical reserve with
9 net salvage and theoretical reserve without net salvage. The difference between these
10 two columns represents the net cost of removal as of December 31, 1989. I developed a
11 percentage relationship of these items, as shown on Exhibit TZ-5, which shows that the
12 pole-related cost of removal reserve as of this date was 31.7849% of total transmission
13 and distribution assets.

14 **Q46. DOES THE FACT THAT THIS INFORMATION WAS FROM A**
15 **DEPRECIATION STUDY PERFORMED IN THE YEAR 1989 MEAN THAT IT**
16 **IS OUTDATED?**

17 A46. No. First of all, the fact that DP&L is still using the information in 2005 suggests it is
18 still relevant and applicable. Second, I am not aware of any significant technological
19 advances in poles that would indicate any significant changes to this data. Last, DP&L
20 makes the following statement on page 6 of this annual report: "For transmission and
21 distribution property, DP&L and MRI have evaluated the impact over time of the
22 likelihood of any significant change in the estimated remaining lives of this property. In
23 summary, the expected life essentially remains the same since there are many additions
24 and interim retirements which equalize the average life of the property." I interpret this

1 to mean that both additions and retirements are taking place on a pro rata basis and this
2 statement gives me assurance that the data used for 1989 is reliable.

3 **Q47. DO YOU HAVE ANY OTHER DATA WHICH CORROBORATES THE**
4 **PERCENTAGE OF THE POLE-RELATED COST OF REMOVAL?**

5 A47. Yes. I obtained DP&L's depreciation rates broken down between life and cost of
6 removal. The pole depreciation rate related to cost of removal represents approximately
7 one-third of the 4.02% rate, or 1.29%. The only other asset category with a cost of
8 removal rate greater than the poles rate is Account 369 Services with a rate of 1.64%. I
9 multiplied the December 31, 2005 transmission and distribution gross plant balances by
10 the cost of removal component of the depreciation rate to estimate what percentage of the
11 cost of removal annual accrual is pole-related. This calculation, shown on Exhibit TZ-4,
12 shows that 30.42% of the annual depreciation accrual related to cost of removal is related
13 to poles.

14 **Q48. WHAT ADJUSTMENT DID YOU DEVELOP TO DP&L'S ACCUMULATED**
15 **DEPRECIATION BASED ON THESE ESTIMATES?**

16 A48. Based on these estimates, I multiplied the \$81,715,123 cost of removal regulatory
17 liability as of December 31, 2005 by 31.7849%, to arrive at an adjustment of
18 \$25,973,071. I used this amount to adjust the pole-related net book value on Exhibit TZ-
19 3. This adjustment is necessary to properly reflect the cost of removal as a component of
20 accumulated depreciation for ratemaking purposes.

1 **D. REVISION OF THE POLES DEPRECIATION RATE TO REFLECT AN**
2 **ACTUAL RATHER THAN AN ESTIMATED RATE**

3 **Q49. WHAT DEPRECIATION RATE DID DP&L USE IN THE DP&L 2005**
4 **CALCULATION?**

5 A49. DP&L used a 3.31% depreciation rate. Based on its response to a data request this rate
6 was developed by “dividing distribution depreciation expense by gross distribution
7 plant.”

8 **Q50. DO YOU THINK THIS IS THE APPROPRIATE RATE TO USE?**

9 A50. No. Consistent with my overall methodology in all of my revisions to the pole
10 calculations, specific identification and actual pole-related amounts should be used when
11 available. Based on another data request, which is also shown on Exhibit TZ-4, I
12 determined that the actual depreciation rate is 4.02% for poles Account 364. This rate
13 has been reflected in Exhibit TZ-1.

14 **Q51. DOES THE 4.02% INCLUDE A COST OF REMOVAL COMPONENT?**

15 A51. Yes. As is shown on Exhibit TZ-4, 1.29%, or nearly one-third of the book depreciation
16 rate is related to cost of removal. Accordingly, this adjustment goes hand in hand with
17 my adjustment to net book value to increase accumulated depreciation related to
18 regulatory liability for cost of removal. It would be inappropriate to allow the
19 depreciation rate increase adjustment without making the interrelated accumulated
20 depreciation adjustment related to cost of removal.

21 **E. ADMINISTRATIVE ELEMENT OF THE DP&L 2005 CALCULATION**

22 **Q52. DID YOU ADJUST THE ADMINISTRATIVE ELEMENT OF THE DP&L 2005**
23 **CALCULATION?**

24 A52. No, while I made inquiries about variances in the administrative costs reflected in
25 DP&L’s 2005 calculation, I did not adjust the administrative element of the calculation. I

1 focused on the most significant deficiencies in DP&L's calculation rather than develop
2 arguments about whether DP&L has improperly included general and administrative
3 costs in its calculation.

4 **F. SPACE FACTOR**

5 **Q53. WHAT SPACE FACTOR WAS USED IN THE DP&L 2005 CALCULATION?**

6 A53. Yes. The DP&L 2005 Calculation used a 50% space factor. I used this factor because
7 counsel requested that I assume this factor in my calculations. I am not expressing an
8 opinion as to whether this factor is appropriate.

9 **V. CONCLUSION**

10 **Q54. UPON WHAT DOCUMENTS DID YOU RELY IN FORMING YOUR**
11 **OPINIONS?**

12 A54. In addition to the documents referenced herein, I relied on the documents listed in Exhibit
13 TZ-10.

14 **Q55. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A55. Yes.