

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of The :
Dayton and Light Company for Authority : Case No. 12-3062-EL-RDR
to Recover of Certain Storm-Related :
Service Restoration Costs. :

In the Matter of the Application of The :
Dayton Power and Light Company for : Case No. 12-3266-EL-AAM
Approval of Certain Accounting Authority. :

**AUDIT REPORT SUBMITTED ON BEHALF OF THE STAFF
OF THE PUBLIC UTILITIES COMMISSION OF OHIO**

Summary of Application and Staff's June 17, 2013 Comments

On December 21, 2012, The Dayton Power and Light Company (or "Company") filed an application for approval to recover \$64,646,644 in capital and O&M expenses, including carrying charges, for storm repairs in 2008 and 2012, and to defer and recover storm repair expenses for 2011. The Company requests authority to include capitalized costs incurred during storm repairs for each year. For the 2012 storms, the Company requests to recover all of the expenses incurred for repairs, not only the amount over a three-year average that the Commission previously approved. The Company also requests recovery of O&M expenses for all major storms going forward.

2008 Storms Background

The Company incurred \$13,661,050 in O&M expenses for repairs as a result of Hurricane Ike on September 14, 2008. The Company also incurred another \$3.6 million in O&M expenses as a result of damage from 11 other storms in 2008. The Company filed an application in Case No. 08-1332-EL-AAM to defer these expenses, less the average amount of major storm repair expenses for the years 2005-2007, for recovery at a later date. In its Order on January 14, 2009, the Commission ruled that the Company may defer Hurricane Ike-related service restoration expenses less the three-year average expenses associated with major storms.

In its June 17, 2013 Comments, Staff recommended that the Company not be allowed to recover expenses for the repair of damage associated with Hurricane Ike because the Company had spent approximately \$149.4 million less than the amount allowed in base rates from the year 2000 until 2011. Additionally, the Company's rate of return has been substantially higher than that which was allowed in the last rate case in 1991. Staff also recommended disallowance of the expenses associated with storm recovery for the other storms in 2008 because the Commission's Order in Case No. 08-1332-EL-AAM only approved deferral of Hurricane Ike expenses.

2011 Storms Background

The Company is requesting deferral authority and recovery of expenses related to repairs for five major storms, including an ice storm on February 1-3, 2011. The total amount of O&M expenses for which recovery is requested is approximately \$10 million.

In its June 17, 2013 Comments, Staff recommended that deferral of 2011 storm repair expenditures is not appropriate because the storms occurred in 2011 and the Company is asking for deferral at the end of 2012 and, as mentioned above, because the Company had been under-spending the allowed O&M and had high equity rates of return over most of the last several years.

2012 Derecho Background

The Company is also requesting recovery of capital and O&M expenses incurred from repairs due to the damage from the June 29, 2012 derecho. The Company incurred approximately \$4.8 million in O&M expenses to repair the damage. In Case No. 12-2281-EL-AAM, the Company requested deferral authority of these O&M expenses for recovery at a later date. On December 19, 2012, the Commission approved deferral of the amount requested, less the three-year average of major storm repair expenses, along with carrying costs. In this Application, the Company is requesting authority to defer and recover the entire amount of O&M expenses.

In its June 17, 2013 Comments, Staff recommended that 2012 major storm expenses that were previously deferred, less the three-year average of major storm expenses, may be recovered pending the outcome of a detailed Staff audit of these expenditures.

Staff also recommended that no revenue requirement for capital expenditures for any of the years is appropriate for recovery in this case.

Commission's October 23, 2013 Entry

In its October 23, 2013 Entry in this case, the Commission ruled that this is not the appropriate proceeding for it to authorize DP&L to establish a charge to recover capital expenses related to storm expenses. Recovery of capital costs was determined by the

Commission to be more appropriately recoverable through a distribution rate case and denied its inclusion for recovery in this case. The Commission also ruled that Staff should conduct a full audit of O&M expenses related to storm repair expenditures incurred in the years in which DP&L requested recovery in this proceeding.

Staff Review of O&M Expenses

Through various data requests, email correspondence, and meetings with Company personnel, Staff received and reviewed union contracts and service contracts with the major contractors used, Company policies and procedures regarding overtime, capitalization of expenditures, and storm response procedures. Staff also requested and received a file of all the transactions recorded relative to the storms in this Application. The file was quite voluminous with thousands of lines of data.

The lines of data included transactions related to Company labor, outside contractors, material requisitions, internal expense reports, etc. Using a statistical sampling method to determine an appropriate sample size, Staff calculated that of the over 16,000 lines of data, 579 samples were necessary in order to achieve a 95% confidence level, plus or minus 4%. Staff requested that the Company provide supporting documentation, such as invoices and timesheets, in order to audit and verify the 579 sample transactions that were selected.

In addition, Staff requested copies of contractor invoices over \$50,000, which included 192 invoices and credits, which amounts to over half of the total amount requested by the Company. Included with the invoices were thousands of pages of support for the invoices. Staff also reviewed an additional sampling of timesheets, invoices and support related to potential issues related to items found in the random samples.

Staff Recommendations

Staff reiterates to the Commission that the 2008 and 2011 expenses should not be recovered as referenced and recommended in its June 17, 2013 Comments. If the Commission rules that the Company is allowed to recover expenses from all storms described in its application, Staff, who has performed a detailed audit of the expenses for which the Company has requested recovery, recommends the following adjustments, which would result in a recovery of \$23,407,216:

Description	Amount	Reason for Adjustment
Company Request:	64,646,644	
Capital expenditures not allowed for recovery		
Less: (including carrying charges)	27,624,990	Per Commission Entry in this Proceeding
O & M Cost Request:	37,021,654	
2008 O & M Adjustments:		
Three-year average adjustment	554,503	Application included \$2,339,446; Staff using \$2,893,949
Management Labor	377,581	Should not be recoverable
Incentive payment for Vice President	5,000	Should not be recoverable
Union straight time	396,941	Amount that should be in base rates
Cost of non-major storms during 2008	3,574,934	
Labor incurred for storm work done well after storm, including carrying charges	60,392	Staff believes this should have been normal O&M; too long after storm to be charged to storm repairs.
CWG LLC	10,003	Invoice shows that work was done in December 2008 for September 2008 storm
Asplundh rate ad on invoice 402502	16,602	Rates on invoice do not match contract
Serco Invoices diff between 12 and 13% markup	128	Contract calls for 12% markup; invoices showed 13%
Serco Invoice for maintenance	4,855	Invoice for generator maintenance, not to be charged to storm
NESCO invoice well after storm	702	Work performed week of 11/14/08 two months after storm
NESCO invoice well after storm	578	Work performed week of 11/14/08 two months after storm
2011 O & M Adjustments:		
Three year average adjustment	4,193,617	Staff believes 3-yr avg should be used
Too many hours on timesheet for employee 4667	726	Timesheet error, adjusted down from 24 to 16 hours a day
Management Labor	309,169	Should not be recoverable
Union straight time	318,813	Amount that should be in base rates
Twenty-first Century Communications	6,358	Monthly fee charged to storm, not incremental; fee would have been incurred anyway 6/2011
Twenty-first Century Communications	6,358	Monthly fee charged to storm, not incremental; fee would have been incurred anyway 8/2011
Labor incurred for storm work done well after storm, including carrying charges	24,534	Staff believes that this is normal O&M; too long after storm
2012 O & M Adjustments:		
Three year average adjustment	3,482,366	Staff believes 3-yr avg should be used
Management Labor	144,611	Should not be recoverable
Union straight time	104,925	Amount that should be in base rates
IJUS LLC	4,301	Sept work done for June derecho
Henkels & McCoy OT/DT Adj	16,441	Adjust to reduce pay from DT to OT per contract
Total O & M Adjustments (not including carrying cost adjustment)	13,614,438	
Recoverable Amount	23,407,216	

Note: Carrying charges on the recoverable amount due to these adjustments need to be revised in accordance with the Commission's Opinion and Order in this Case.

The following is a description of each of the above recommended adjustments:

Capital expenditures

As stated above, in the October 23, 2013, Commission Entry in this case, the Commission ruled that the recovery of capital expenditures incurred as a result of storm damage is more appropriately an issue for a distribution rate case and not a storm recovery rider. Therefore,

Staff recommends an adjustment of the total requested amount of capital-related expenditures in the amount of \$27,624,990, including carrying charges

Three-year Average Adjustment

Staff believes that base rates have minor storm repair expenditures and some element of major storm expenditures included in them. Per the Commission’s Entry on Rehearing in Case No. 12-2281-EL-AAM, the Commission stated, “The Commission finds that it would be inconsistent with Commission precedent to allow DP&L to defer the full amount, and that deferral of the full amount may result in double recovery of O&M expenses.”¹ Therefore, a three-year average of major storm repair expenses should be deducted from the total. Staff has recalculated the three-year averages for each year of the storms expenses requested in this case to account for the other adjustments recommended for each year above.

Using DP&L’s Data Request Response to OCC Interrogatory 2D and 2E in Case No. 12-2281-EL-AAM, Staff has calculated the three-year averages that should be reduced from the recovery of the 2008, 2011, and 2012 storms. From the amounts shown on the responses, Staff adjusted the yearly expenses by the amounts recommended in these comments to calculate the averages as shown in the following chart:

	Major Storm O&M Expenses	3-Year Avg for 2008	3-Year Avg for 2011	3-Year Avg for 2012
2005	6,094,093			
2006	872,528			
2007	1,715,226			
2008	15,950,806			
Adjusted 2008 per Staff Audit Findings	11,503,090	2,893,949		
2009	774,841			
2010	302,919			
2011	10,035,297			
Adjusted 2011 per Staff Audit Findings	9,369,339		4,193,617	
2012				3,482,366

Management Labor

Management’s regular work hours are built into base rates. To include them in the total cost of the rider would mean that customers would be paying twice for the same labor. Therefore, it is inappropriate to include management’s regular labor in the rider.

Regarding management overtime, management employees are typically paid a salary for performing a job and are generally not compensated for working a specific number of hours a

¹ Case No. 12-2281-EL-AAM, Entry on Rehearing, February 13, 2013, at 4.

week. Recovery should not include management labor paid in excess of 40 hours. While Staff understands that during a storm restoration period, as the need arises, some exempt employees are asked to work more than 40 hours per week, but Staff believes that customers should not have to pay for this management overtime. Therefore, Staff recommends a total adjustment of \$831,361 for management labor.

Incentive Payment

The Company's Vice President of Operations received an award of \$10,000--\$5,000 of which was charged to O&M and \$5,000 was charged to capital²--for his management of all facets of the storm restoration. Staff recognizes that some employees may be expected to work extra hours in support of the Company's restoration efforts, but believes that employees of this level have a responsibility to direct this work without receiving an extra benefit that should be borne by the ratepayers. Staff recommends an adjustment of \$5,000.

Union Straight-time Labor

The Company's employees who work on storm repairs are instructed to record all of their time to the proper project code for the storm for which they are performing repairs. Due to union contracts, the majority of Company labor for storm repairs is paid at minimum time and a half rates. However, in any given week, the first 40 hours of each employee's straight-time labor is already being paid for by customers in the Company's base rates. Therefore, Staff recommends a total adjustment of \$820,679 to exclude the amount already recovered in base rates.

The overtime portion of the employees' hourly rates and the pay for the extra hours are truly incremental labor for which Staff is not making an adjustment.

Costs for Non-Major Storms in 2008

The Company's application includes, along with Hurricane Ike repair costs, repair costs associated with non-major storms in 2008. The Application to defer 2008 costs (Case No. 08-1332-EL-AAM) includes "other" storms; however, per the Commission's Finding and Order, only Hurricane Ike expenses were approved for deferral:

"The Commission finds that the application seeking authority to modify the Company's accounting procedures to defer incremental O&M expenses associated with the September 14, 2008, wind storm, with carrying costs, is reasonable and should be approved."³

² Company Response to Staff Data Request No. 10.

³ Case No. 08-1332-EL-AAM, Finding and Order, January 14, 2009, at 2.

Also, the Company has stated that the cost of repairs from non major storms is embedded in the Company's O&M expenses recovered through base rates. Therefore, for these reasons, Staff believes an adjustment of \$3,574,934 to remove the minor storm repair expenses is appropriate.

Out-of-Period Labor Charges

In 2008 and 2012, some labor was charged to storm projects for work done months after the storms occurred for which the projects were charged. Staff believes that these charges should have been charged to regular O&M and recommends an adjustment of \$84,926.

Specific Invoice Deductions

Staff recommends the following adjustments for specific invoice charges. Some are for work that was done either before or well after the arrival of the storm as referenced in the invoices, prompting Staff to believe that they should have been charged to normal (non-storm) O&M:

CWG LLC: An invoice shows work being done on in December 2008 for a September storm. As a result, Staff recommends an adjustment of \$10,003.

Asplundh: On invoice number 402502, the rates charged do not match the contract. Staff calculated the difference and recommends an adjustment of \$16,602.

Serco: An invoice shows a 13% markup for food, hotels, and other expenses; however, the contract calls for a 12% markup. Therefore, Staff recommends an adjustment of \$128 to account for the 1% difference. Another invoice showed charges for generator maintenance that would have been incurred absent any storms or should have been incorporated into its rates charged to the Company and Staff recommends an adjustment of \$4,855.

NESCO: Two invoices were for work done the week of 11/14/08, which was two months after Hurricane Ike occurred. Therefore, the total of two invoices, \$1,280, should be adjusted.

Twenty First Century Communications: Invoices for June 2011 and August 2011 include a monthly fee for the company's services. Staff believes these charges would have been incurred absent any storm and believes they are not incremental, resulting in a recommended adjustment of \$12,716.

IJUS, LLC: An invoice for work done in September 2012 says it was related to the June derecho. Staff believes that this should have been charged to regular O&M and recommends an adjustment of \$4,301.

Henkels & McCoy: The contract calls for employees to be paid overtime rates at time and a half; however, the Company paid double-time rates for many hours, resulting in a recommended adjustment of \$16,441.

Other Recommendations

Along with the above adjustments, Staff recommends the following:

1. The recoverable amount should be recovered over one year.
2. This amount should be recovered on a per customer bill, not per kWh or kW.
3. If the Company has any additional requests for deferral and/or recovery of storm repair expenses before its next base rate case, Staff recommends that the total expenses be reduced by the three-year average.
4. In the Company's next base rate case, Staff recommends that the Company apply for a tracker and a baseline level of expenses for repairs related to major storms for inclusion in base rates. Then each subsequent yearly request for recovery would be net of the baseline amount.
5. In the audit of expenses for this case, Staff discovered many invoices and receipts for meals that appear to be for amounts considerably more than should be reasonably expected to be recovered from customers, including receipts for numerous snacks and refreshments. Currently, neither the Company nor the Commission have rules in place regarding the reasonableness of expenditures during storm restoration. Staff recommends that the Company implement a "per diem" or maximum amount (such as \$50 a day) for food allowances for internal employees and contractors involved in storm repair.

Respectfully submitted,

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

/s/ Ryan P. O'Rourke
Ryan P. O'Rourke
Public Utilities Section
180 E. Broad Street, 6th Floor
Columbus, OH 43215
(614) 466-4396
Fax: (614) 644-8764
ryan.o'rourke@puc.state.oh.us

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Staff's Audit Report** was served by electronic mail, upon the following parties of record, this 3rd day of January, 2014.

/s/ Ryan P. O'Rourke

Ryan P. O'Rourke

Parties of Record:

Judi L. Sobecki
Randall V. Griffin
The Dayton Power & Light Company
1065 Woodman Drive
Dayton, Ohio 45432
Judi.sobecki@dplinc.com
Randall.griffin@dplinc.com

Charles J. Faruki
Faruki Ireland & Cox PLL
500 Courthouse Plaza, S.W.
10 North Ludlow Street
Dayton, Ohio 45402
cfaruki@ficlaw.com

Mark S. Yurick
Zachary D. Kravitz
Taft Stettinius & Hollister LLP
65 East State Street, Suite 1000
Columbus, Ohio 43215
myurick@taftlaw.com
zkravitz@taftlaw.com

Melissa R. Yost
Larry S. Sauer
Office of the Ohio Consumers' Counsel
10 W. Broad St., Suite 1800
Columbus, Ohio 43215
yost@occ.state.oh.us
sauer@occ.state.oh.us

Attorney Examiners:
bryce.mckenney@puc.state.oh.us
greg.price@puc.state.oh.us

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Summary: Audit electronically filed by Mrs. Tonneta Y Scott on behalf of PUCO