

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The)
Dayton Power and Light Company for) Case No. 12-3062-EL-RDR
Authority 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.)

**DIRECT TESTIMONY
OF
DANIEL J. DUANN, Ph.D.**

**On Behalf of
The Office of the Ohio Consumers' Counsel**
*10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485*

January 31, 2014

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LIST OF ATTACHMENTS

Attachment DJD-1

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1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.***

4 ***A1.*** My name is Daniel J. Duann. My business address is 10 West Broad Street, Suite
5 1800, Columbus, Ohio, 43215-3485. I am a Principal Regulatory Analyst with
6 the Office of the Ohio Consumers' Counsel ("OCC").

7

8 ***Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***
9 ***PROFESSIONAL EXPERIENCE.***

10 ***A2.*** I received my Ph.D. degree in public policy analysis from the Wharton School,
11 University of Pennsylvania. I also have a M.S. degree in energy management and
12 policy from the University of Pennsylvania and a M.A. degree in economics from
13 the University of Kansas. I completed my undergraduate study in business
14 administration at the National Taiwan University, Taiwan, Republic of China. I
15 was conferred by the Society of Utility and Regulatory Financial Analysts as a
16 Certified Rate of Return Analyst in April 2011.

17

18 I was a Utility Examiner II in the Forecasting Section of the Ohio Division of
19 Energy, Ohio Department of Development, from 1983 to 1985. From 1985 to
20 1986, I was an Economist with the Center of Health Policy Research at the
21 American Medical Association in Chicago. In late 1986, I joined the Illinois
22 Commerce Commission as a Senior Economist in its Policy Analysis and
23 Research Division. I was employed as a Senior Institute Economist at the

1 National Regulatory Research Institute (“NRRI”) at The Ohio State University
2 from 1987 to 1995. My work at NRRI involved many areas of utility regulation
3 and energy policy. I was an independent business consultant from 1996 to 2007.

4
5 I joined the OCC in January 2008 as a Senior Regulatory Analyst. I was
6 promoted to my current position in November 2011. My responsibilities are to
7 assist the OCC by participating in various regulatory proceedings before the
8 Public Utilities Commission of Ohio (“PUCO”). These proceedings include rate
9 cases, alternative regulation, fuel cost recovery, service reliability, and other types
10 of filings by Ohio’s electric, gas, and water companies.

11
12 ***Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED***
13 ***BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?***

14 ***A3.*** Yes. I have submitted expert testimony on behalf of the OCC before the PUCO in
15 a number of cases involving electric, gas, and water utilities. A list of these cases
16 is included in Attachment DJD-1.

17
18 ***Q4. WHAT ARE YOUR QUALIFICATIONS WITH REGARD TO YOUR***
19 ***TESTIMONY IN THIS PROCEEDING?***

20 ***A4.*** I am a trained economist with over twenty-five years of experience in studying
21 and analyzing the regulation of public utilities in the United States. A list of my
22 selected professional publications is included in Attachment DJD-2. I have
23 directly participated in many public utility proceedings in Ohio and Illinois. I am

familiar with the rate-making issues related to the authorization of deferrals and subsequent collection, if any, by electric utilities in Ohio. For example, I filed testimony and testified in the 2009 and 2012 Electric Security Plan (“ESP”) proceedings of Dayton Power and Light Company (“DP&L” or “Utility”) (Case Nos. 08-1094-EL-SSO et al., and 12-426-EL-SSO). I also testified in the 2009, 2010, and 2011 AEP Ohio Fuel Adjustment Clause (“FAC”) Audit proceedings, several AEP Ohio ESP proceedings, and the most recent electric and natural gas distribution rate cases of Duke Energy Ohio.

II. PURPOSE OF TESTIMONY

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A5. The purpose of my testimony is to support and explain certain positions of the OCC regarding the application by DP&L to collect from customers 2008 and 2012 storm-related costs, to defer and collect storm-related costs of 2011, and to establish a Storm Cost Recovery Rider that allows DP&L to defer and collect all operation and maintenance (“O&M”) costs for major-event storms going forward.¹ The analysis and conclusion regarding the prudence and reasonableness of individual expenses items and baseline are discussed by another OCC witness, Anthony J. Yankel.

¹ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Application (December 21, 2012).

III. RECOMMENDATIONS AND COMMENTS

Q6. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A6. First, I recommend that the PUCO deny the Utility's application to collect all storm-related capital costs from customers. Second, I recommend the PUCO deny DP&L's request to collect the 2008 deferred storm-related O&M costs and deny the request to defer and collect the 2011 storm-related O&M costs. Third, I recommend the PUCO deny the Utility's request to establish a Storm Cost Recovery Rider that will allow DP&L to defer and collect from customers future O&M costs related to major-event storms. Fourth, I recommend that the PUCO reject DP&L's request for a 5.86% carrying charge on all deferred amounts after December 31, 2013. If the PUCO permits DP&L to collect carrying charges from customers on deferred amounts after December 31, 2013, then those carrying charges should be based on DP&L's most recent cost of debt approved in its most recent ESP proceeding -- 4.94%.²

Q7. WHAT IS DP&L REQUESTING IN THIS PROCEEDING?

A7. The Utility is requesting authority to collect from customers the storm-related O&M expenses for all major-event storms in 2011 and 2012, as well as certain

² The cost of debt of 4.94% was proposed by the Utility and approved without modification (on September 4, 2013) by the PUCO for the current ESP in place. *See, In the Matter of the Application of The Dayton Power and Light Company for Approval of its Electric Security Plan*, Case No. 12-426-EL-SSO et al., Opinion and Order at 53 (September 4, 2013).

2008 storm O&M expenses.³ DP&L is also seeking to charge customers for related capital revenue requirements for Hurricane Ike in 2008 and major storms in 2011 and 2012.⁴ Furthermore, DP&L requests that the PUCO grant accounting authority to defer the 2011 major storm O&M costs with carrying costs equal to the Utility's cost of debt.⁵ Finally, DP&L is seeking to implement a Storm Cost Recovery Rider that would permit DP&L to recover all costs associated with major storms going forward and requesting accounting authority to defer O&M costs until they are collected through this rider.⁶ In total, DP&L seeks to charge customers for approximately \$64.6 million in total annual storm-related revenue requirements over a three-year period from March 2012 through February 2015.⁷

Q8. DO YOU AGREE WITH DP&L'S ASSERTION THAT IT CURRENTLY DOES NOT HAVE A RATE MECHANISM TO RECOVER STORM COSTS?

A8. No. I do not agree with this assertion. There is no factual basis for this assertion. Actually DP&L's position on this issue is confusing and inconsistent. On the one hand, DP&L's witness indicates it currently has no rate mechanism to recover storm costs.⁸ On the other hand, the same witness readily admits that storm costs

³ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service Restoration Costs*, Case No. 12-3062-EL-RDR et al., Application ("Application") at 2, (December 21, 2012).

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *See*, Application at Schedule B-1, page 1 of 1, line 33. The three year total is \$64,646,644 = \$22,338,250 + \$21,671,351 + \$20,637,043.

⁸ *See*, Direct Testimony of Dona R. Seger-Lawson at 2-3 (Dec. 21, 2012).

are included in its current base distribution rates even though the level of storm cost recovery that would have been included in the base distribution rate is unclear.⁹ There is no question that storm-related costs, as part of the operation expenses of the 1991 test year, were included in the distribution rates that are currently charged to DP&L customers. And the PUCO specifically found last year (in the proceeding where DP&L requested authority to defer O&M expenses related to the 2012 Derecho) that if DP&L were permitted to collect the full amount of storm restoration O&M expenses associated with major storms from customers, “[it] could allow for DP&L to engage in double-recovery for the O&M expenses, first from base distribution rates and second from [the Derecho cost deferral] proceeding.”¹⁰

Q9. DO YOU AGREE WITH DP&L’S ASSERTION THAT “THEREFORE, IT IS REASONABLE TO ASSUME THAT THE COST OF NON-MAJOR EVENTS IS RECOVERED IN CURRENT DISTRIBUTION RATES AND THAT THE COST ASSOCIATED WITH MAJOR EVENT STORMS SHOULD BE RECOVERABLE THROUGH A SEPARATE RIDER”?¹¹

A9. No. I do not agree with this assertion by DP&L. It is my understanding that the definition, or the threshold, of a Major Event Days in the PUCO’s rules is

⁹ Id., at 5-6.

¹⁰ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 12-2281-EL-AAM, Entry on Rehearing, paragraph 7 (February 13, 2013).

¹¹ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Application at 2, (December 21, 2012).

1 primarily used to calculate the system reliability performance of a utility;¹² it has
2 nothing to do with the collection of storm-related costs. I am not aware of any
3 Ohio law or PUCO rule that requires the costs of major-event storms to be tracked
4 separately or that requires such costs to be collected through a rider separate from
5 base distribution rates. DP&L has not identified any such law or rule requirement
6 in its Application and supporting testimony. Nor has DP&L explained why it is
7 reasonable to require the costs of major-event storms to be tracked separately or
8 to require such costs to be collected through a rider separate from base
9 distribution rates. In her supporting testimony, the Utility's witness merely
10 restates the same position.¹³ Then, in the Supplemental Testimony filed on
11 January 17, 2014, DP&L's witness still provided no explanation or support for the
12 contention that the O&M costs related to major event storms are not already
13 recovered from customers in DP&L's current rates.¹⁴

14
15 More importantly, the PUCO has determined in a related proceeding that allowing
16 DP&L to defer the full amount of O&M costs associated with major-event storms
17 in a given year is inconsistent with PUCO precedent.¹⁵ And, as stated above, the
18 PUCO explained that such a deferral could result in double recovery of O&M

¹² For example, DP&L instituted the use of the IEEE 2.5 Beta methodology to identify Major Event Days to calculate the minimum performance standards in accordance with Ohio Administrative Code and PUCO rules. *See*, Direct Testimony of Bryce W. Nickel at 12 (Dec. 12, 2012).

¹³ *See*, Direct Testimony of Dona R. Seger-Lawson at 5-6.

¹⁴ *See*, Supplemental Testimony of Donna R. Seger-Lawson at 2-3 (Jan. 17, 2014).

¹⁵ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 12-2281-EL-AAM, Entry on Rehearing, paragraph 7 (February 13, 2013).

1 expenses from customers — through base distribution rates and also from the
2 deferral proceeding.¹⁶

3
4 **A. Costs Associated With Capital Expenditures**

5
6 ***Q10. SHOULD THE REVENUE REQUIREMENTS (OR COSTS) AS A RESULT***
7 ***OF STORM-RELATED CAPITAL EXPENDITURES ASSOCIATED WITH***
8 ***HURRICANE IKE, 2011 MAJOR EVENT STORMS, AND THE 2012***
9 ***DERECHO BE ADDRESSED IN THIS PROCEEDING?***

10 ***A10.*** No. The PUCO has already ruled that this is not the appropriate proceeding to
11 authorize DP&L to collect storm-related capital costs from customers. The
12 PUCO determined that any capital-related costs are more appropriately collected
13 through a distribution rate case. And the PUCO denied inclusion of such costs for
14 collection from customers in this case.¹⁷ The PUCO Staff estimated that the costs
15 associated with capital expenditures and carrying charges for which the PUCO
16 denied DP&L collection from customers in this proceeding were approximately
17 \$27.6 million.¹⁸ Moreover, DP&L's request to collect a return on rate base,
18 depreciation expense, and taxes on storm-related capital expenditures¹⁹ -- through

¹⁶ Id.

¹⁷ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Entry, Paragraph 14 (October 23, 2013).

¹⁸ Audit Report Submitted on Behalf of the Staff of The Public Utilities Commission of Ohio at 4 (January 3, 2014).

¹⁹ See, Application at 6.

1 a separate rider outside a rate case — is unreasonable and should be denied.
2 DP&L's request should also be denied because it is contrary to long-standing
3 regulatory principles.
4

5 **B. Storm Cost Recovery Rider Going Forward**
6

7 ***Q11. SHOULD DP&L BE ALLOWED TO DEFER AND COLLECT FROM***
8 ***CUSTOMERS ALL OPERATION AND MAINTENANCE COSTS FROM***
9 ***FUTURE MAJOR EVENT STORMS?***

10 ***A11.*** No. DP&L should not be allowed to establish a Storm Cost Recovery Rider that
11 would permit it to collect from customers all O&M costs associated with major
12 storms on a going forward basis. Also, DP&L should not be authorized to defer
13 O&M costs and recover such costs from customers through a rider.²⁰ DP&L has
14 not proved that the O&M costs of major-event storms are not already collected
15 from customers as part of base distribution rates. Nor has DP&L put forth any
16 testimony in this proceeding that explains how customers will benefit from the
17 approval of such a rider.

18 The PUCO should evaluate each deferral request on a case-by-case basis.
19 Otherwise, establishment of the proposed Storm Cost Recovery Rider could
20 potentially result in double recovery of O&M costs and without adequate
21 prudence review of storm-related costs. Finally, DP&L's request for a Storm

²⁰ See, Application at 2.

1 Cost Recovery Rider should be rejected because the current regulatory framework
2 for DP&L's storm-related costs is reasonable and provides safeguards for
3 customers to protect them from overpaying storm-related costs.

4
5 **C. Carrying Cost Rate**

6
7 ***Q12. IN THE PROCEEDING WHERE DP&L RECEIVED APPROVAL TO***
8 ***DEFER SOME STORM COSTS RELATED TO THE 2012 DERECHO,***
9 ***WHAT DID THE PUCO ORDER IN REGARD TO THE CARRYING COST***
10 ***RATE?***

11 ***A12.*** In that proceeding, the PUCO held "Sound regulatory policy directs that the
12 carrying cost rate should be set equal to the most recently approved cost of long-
13 term debt. When a new cost of long-term debt is approved, the carrying costs
14 should then be amended to reflect the newly approved rate."²¹

²¹ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 12-2281-EL-AAM, Finding and Order, paragraph 7 (December 19, 2012).

1 ***Q13. WHAT CARRYING COST RATE DOES DP&L REQUEST IN THIS***

2 ***PROCEEDING?***

3 ***A13.*** DP&L proposes a carrying cost of 5.86% on deferred storm expenses based on its
4 actual cost of debt as filed and approved in DP&L's 2008 ESP,²² and a carrying
5 charge equal to its June 30, 2012 cost of debt (5.56%) to any over or under
6 recovered amount on a going forward basis.²³

7
8 ***Q14. IS 5.86% OR 5.56% DP&L'S MOST RECENT PUCO-APPROVED COST OF***
9 ***LONG-TERM DEBT?***

10 ***A14.*** No. On September 4, 2013, the PUCO approved an ESP with a 4.94% cost of
11 long-term debt.²⁴

12
13 ***Q15. WHAT SHOULD THE CARRYING COST RATE BE FOR ANY DEFERRAL***
14 ***BALANCES AFTER DECEMBER 31, 2013?***

15 ***A15.*** The carrying cost for any DP&L deferred storm-related O&M expenses approved
16 for collection should be 4.94% after December 31, 2013.

²² *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Application at 4, 6 (December 21, 2012).

²³ *See*, Application at 6, Schedule D-1, page 1 of 1, line 1 as revised by DP&L Witness Gregory S. Campbell on January 31, 2014.

²⁴ *See*, Second Revised Direct Testimony of Craig L. Jackson (December 12, 2012), at 14, and Opinion and Order (September 4, 2013), PUCO Case No. 12-0426-EL-SSO et al. The PUCO did not modify the cost of long-term debt as proposed by DP&L.

D. Deferral And Collection From Customers For 2008 And 2011 Costs

Q16. WHAT 2008 STORM-RELATED COSTS DID THE PUCO AUTHORIZE DP&L TO DEFER?

A16. The PUCO authorized DP&L to defer only the incremental O&M expenses related to the September 14, 2008 wind storm (Hurricane Ike) and associated carrying costs.²⁵ However, DP&L is also trying to charge its customers for a multitude of storm costs incurred in 2008 that the PUCO never authorized DP&L to defer. Specifically, DP&L is seeking PUCO approval in its Application to charge its customers \$3,574,933.87 in O&M costs and additional carrying costs resulting from other storms in 2008.²⁶ Customers should not pay those costs.

Q17. HAVE YOU CALCULATED THE RETURN ON EQUITY OF DP&L AND OTHER OHIO ELECTRIC DISTRIBUTION UTILITIES FOR THE PERIOD OF 2004 TO 2011?

A17. Yes. I have used the data included in the Annual report to the PUCO (or FERC Form 1) filed by all major Ohio EDUs to calculate their respective annual return on equity ("ROE") during this particular time period. The results are summarized in Table 1.

Table 1: Return on Equity of Major Ohio Electric Distribution Utilities (2004 – 2011)

²⁵ See, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 08-1332-EL-AAM, Finding and Order, (January 14, 2009) at paragraphs 3 and 4.

²⁶ See, Application at Schedule C-1, page 1 of 1 at line 2.

*Direct Testimony of Daniel J. Duann, Ph.D.
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 12-3062-EL-RDR et al.*

UTILITIES	2011	2010	2009	2008	2007	2006	2005	2004
CSP		16.18%	20.83%	19.63%	23.19%	18.19%	14.57%	15.62%
OP		9.76%	10.82%	9.78%	12.46%	12.07%	15.12%	14.25%
Duke		-7.76%	-6.79%	4.35%	4.08%	4.09%	15.26%	13.39%
CEI		5.80%	-0.86%	18.39%	18.68%	17.95%	11.89%	12.64%
Ohio Edison		16.24%	10.53%	14.75%	11.11%	9.38%	12.47%	13.41%
Toledo Edison		8.45%	4.95%	15.52%	18.87%	14.10%	7.91%	9.60%

*: Merged with OP at the end of 2011.

**: ROE of the merged OP

1

2 ***Q18. WHAT WAS DP&L'S RETURN ON EQUITY FOR 2008?***

3 ***A18.*** In 2008, DP&L had a net income of \$285.8 million, a preferred dividend of \$0.9
4 million, and average shareholder equity of \$1,422.1 million, yielding a 20.04%
5 return on equity.

6

7 ***Q19. IF DP&L HAD EXPENSED ITS 2008 STORM-RELATED COSTS IN ITS***
8 ***NORMAL COURSE OF BUSINESS, HOW WOULD THAT HAVE***
9 ***IMPACTED THE UTILITY'S RETURN ON EQUITY?***

10 ***A19.*** The re-calculated return on equity of 2008 would be slightly lower than the ROE
11 of 20.04% reported in DP&L's financial statement. Based on the DPL, Inc. 2008
12 Annual Report, DP&L deferred approximately \$13 million of incremental O&M
13 costs associated with its storm restoration effort in 2008.²⁷ Assuming that the
14 amounts presented by DP&L in Schedule C-1 of its Application are reasonable
15 and accurate, the total 2008 Incremental Storm O&M costs were approximately

²⁷ See, DPL, Inc. 2008 Annual Report at 16 -17.

1 \$14.9 million (\$14,896,538).²⁸ If the \$14.9 million amount had been treated as
2 expenses in 2008, I estimate that DP&L's 2008 net income would have been
3 reduced to \$270.9 million, yielding an 18.99% return on equity, assuming the
4 amounts of income tax expenses and average shareholder's equity do not change
5 as a result of added expenses.²⁹ If only the 2008 Hurricane Ike Incremental O&M
6 costs exceeding the three-year average service restoration O&M expense that was
7 deferred (as authorized by the PUCO) had been treated as expenses in 2008, the
8 2008 O&M expenses (without deferral) would be increased approximately \$11.3
9 million (\$11,321,604 = \$13,661,050 - \$2,339,446).³⁰ I estimate that the 2008 net
10 income would then have been reduced to \$274.5 million yielding a 19.24% return
11 on equity, assuming once again the amount of income tax expenses and average
12 shareholder's equity do not change.

²⁸ See, Application at Schedule C-1, page 1 of 1 at line 5.

²⁹ The increase in operating expenses, as a result of including the deferred storm-related O&M expenses, will likely reduce the amount of income tax expenses and the amount of average shareholder's equity, which will increase the ROE slightly above 18.99%.

³⁰ See, Application at Schedule C-1, page 1 of 1 at lines 1 and 4. It should be noted that the PUCO Staff had calculated a different three-year baseline storm O&M costs in another proceeding (PUCO Case No. 12-426-EL-SSO) as cited in Comments By The Office of the Ohio Consumers' Counsel at 6 and 9 (June 17, 2013). Use of this baseline would reduce the amount of incremental O&M storm cost for deferral and would result in a higher 2008 net income and ROE calculated here.

1 **Q20. GIVEN THAT, ABSENT THE DEFERRALS, DP&L WOULD HAVE HAD A**
2 **2008 ADJUSTED RETURN ON EQUITY OF 18.99% OR 19.24%, SHOULD**
3 **DP&L BE ALLOWED TO COLLECT FROM CUSTOMERS THE**
4 **DEFERRED 2008 INCREMENTAL OPERATION AND MAINTENANCE**
5 **EXPENSES RELATED TO HURRICANE IKE AND OTHER MAJOR-**
6 **EVENT STORMS?**

7 **A20.** No.

8
9 **Q21. WHY SHOULD THE PUCO DENY DP&L'S REQUEST TO COLLECT**
10 **FROM CUSTOMERS THE DEFERRED 2008 INCREMENTAL STORM-**
11 **RELATED OPERATION AND MAINTENANCE EXPENSES?**

12 **A21.** As shown in Table 1, DP&L's per-book ROE of 20.04% in 2008 was the highest
13 among Ohio's seven major electric utilities. Even if the deferred storm-related
14 costs were fully expensed (instead of deferred), DP&L's re-calculated earned
15 ROE of 18.99% in 2008 was higher than its authorized ROE (12.06 -13.19%)
16 approved by the PUCO in DP&L's last rate case (Case No. 91-414-EL-AIR).³¹
17 Additionally, DP&L's 18.99% ROE is considerably higher than the 11.30% ROE
18 that was approved by the PUCO in DP&L's 2008 ESP.³² Such a high ROE
19 (18.99%) indicates that in 2008 DP&L's revenues from the rates it collected from
20 its customers more than covered all the O&M costs it incurred (including all

³¹ Case No. 12-3062-EL-RDR, Comments Filed on Behalf of the Staff of the Public Utilities Commission of Ohio at 4 (June 17, 2013).

³² See, Direct Testimony of Gregory S. Campbell at 8 (Dec. 21, 2012).

1 storm-related O&M expenses incurred in 2008) and at the same time earned an
2 extremely high return on its invested capital. Because DP&L has more than fully
3 recovered its total costs (which include all storm-related O&M expenses and a
4 very high return on invested capital) of providing electric service in 2008, there is
5 no financial need for DP&L to collect any deferred 2008 storm-related O&M
6 expenses.

7
8 Furthermore, any additional collection of the deferred 2008 storm-related
9 expenses from customers would amount to an unreasonable and unjust increase in
10 rates. Actually, it would be a double recovery of the deferred storm-related O&M
11 expenses. The imposition and collection of unjust and unreasonable rates by a
12 regulated electric utility such as DP&L is contrary to the electric service policies
13 of the state of Ohio, specifically, the availability of reasonably priced retail
14 electric service and the protection of at-risk populations.

15
16 ***Q22. SHOULD THE PUCO GRANT DP&L THE AUTHORITY TO DEFER THE***
17 ***2011 MAJOR STORM-RELATED OPERATION AND MAINTENANCE***
18 ***COSTS?***

19 ***A22.*** No. DP&L has not alleged, nor can it demonstrate a financial need for this
20 deferral.³³ Moreover, DP&L should not be granted the authority to defer these
21 O&M costs because the deferral request is not timely. DP&L has not provided

³³ See, Direct Testimony of Dona R. Seger-Lawson at 5.

1 any explanation why it waited 23 months to file the request for deferral.³⁴ DP&L
2 failed to show any extraordinary circumstance for the long delay in filing the
3 deferral request for the 2011 storm-related costs.

4
5 ***Q23. WHEN DID DP&L FILE ITS APPLICATION REQUESTING AUTHORITY***
6 ***TO DEFER THE 2011 STORM-RELATED EXPENSES?***

7 ***A23.*** DP&L filed its Application for the authority to defer 2011 storm related costs on
8 December 21, 2012. DP&L waited nearly fifteen months after the last major
9 storm of 2011 (September 3, 2011) and nearly 23 months after the first major
10 storm in 2011 (January 31, 2011) to seek authority to defer the 2011 storm-related
11 costs.³⁵ This is a significant delay considering DP&L filed its Application to
12 defer 2008 storm-related expenses 103 days after the Hurricane Ike wind storm,
13 and its Application to defer 2012 expenses 42 days after the 2012 storm-related
14 expenses were incurred. Actually, DP&L filed its Application to defer the 2012
15 storm-related costs and received the approval for the 2012 deferral before it filed
16 its Application to defer the 2011 storm-related costs.³⁶

17
18 DP&L's request for deferral of 2011 storm-related costs is particularly
19 troublesome as a matter of public utility regulation because these 2011 costs were

³⁴ Id.

³⁵ See, Direct Testimony of Bryce W. Nickel at 3.

³⁶ The request for deferral of 2012 storm-related costs was filed on August 10, 2012 and amended on October 19, 2012. See, Application at 5. The deferral of 2012 storm-related costs was approved by the PUCO on December 19, 2012.

1 fully expensed and reflected in DP&L's 2011 financial statements. By granting
2 the deferral at this time and allowing DP&L to collect them, the PUCO is giving
3 an unjustified and unreasonable windfall of at least \$10 million (\$10,035,297) to
4 DP&L.³⁷ This windfall would be paid by DP&L's customers, who are already
5 paying one of the highest electric rates in Ohio at this time.³⁸

6
7 ***Q24. HAS THE PUCO STAFF COMMENTED ON THE UNTIMELINESS OF***
8 ***DP&L'S REQUEST TO DEFER 2011 STORM-RELATED COSTS?***

9 ***A24.*** Yes. The PUCO Staff indicated, in Comments filed in this case, that the 2011
10 deferral request was not timely filed and the 2011 financial statements of DP&L
11 were already completed and filed before the filing of the request for deferral.³⁹
12 The PUCO Staff indicated that deferring 2011 storm-related expenses is not
13 appropriate and is not recommended for collection.⁴⁰ The PUCO Staff reiterated
14 the same position in its Audit Report filed on January 3, 2014, that the 2008 and
15 2011 expenses should not be recovered (i.e. the expenses should not be collected
16 from customers).⁴¹

³⁷ See, Application at Schedule C-1, page 1 of 1 at line 7.

³⁸ A typical DP&L residential customer using 750 KWH of electricity per month pays \$107.84, which is the second highest among the seven major utilities. Also, that monthly amount is higher than the state average of \$102.64, and the lowest at \$90.45. See Ohio Utility Rate Survey, A report by the Staff of the Public Utilities Commission of Ohio (January 14, 2014).

³⁹ See, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Comments Filed on Behalf of the Staff of The Public Utilities Commission of Ohio at 6 (June 17, 2013).

⁴⁰ Id.

⁴¹ See, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service restoration Costs*, Case No. 12-3062-EL-RDR et al., Audit Report Submitted on Behalf of the Staff of The Public Utilities Commission of Ohio at 3 (January 3, 2014).

1 **Q25. WHAT WAS DP&L'S RETURN ON EQUITY FOR 2011?**

2 **A25.** In 2011, DP&L had a net income of \$193.2 million, a preferred dividend of \$0.9
3 million, and average shareholder equity of \$1,368.7 million, yielding a 14.05%
4 return on equity.

5
6 **Q26. HAS DP&L ALREADY EXPENSED ALL ITS 2011 STORM-RELATED**
7 **EXPENSES IN ITS NORMAL COURSE OF BUSINESS?**

8 **A26.** Yes. Because DP&L has not yet received PUCO approval to defer any of its 2011
9 storm-related expenses at this time, these 2011 storm-related expenses have
10 already been recorded and reflected in the net income and return on equity as
11 reported in the Utility's financial statements. I have confirmed this by reviewing
12 the 2011 FERC Form 1 filed by DP&L. During my review of the 2011 FERC
13 Form 1, I did not find any record of the deferral of the 2011 storm-related costs.

14

15 **Q27. IF THE PUCO PERMITS DP&L TO DEFER THE 2011 STORM-RELATED**
16 **OPERATION AND MAINTENANCE COSTS, THEN WHY SHOULD THE**
17 **PUCO DENY DP&L'S REQUEST TO COLLECT THOSE COSTS FROM ITS**
18 **CUSTOMERS?**

19 **A27.** As discussed earlier, DP&L's request for deferral of the 2011 major-storm related
20 incremental O&M costs was not timely and the PUCO should deny DP&L's
21 Application for the authority to defer the 2011 incremental storm expenses.
22 However, even if DP&L were granted authority to defer the 2011 storm expenses
23 thirty-six months after the occurrence of the first major storms of 2011, it is still

1 unreasonable to allow DP&L to charge customers for these storm-related O&M
2 expenses, given its earned ROE of 14.05% in 2011. As shown in Table 1,
3 DP&L's 14.05% ROE was one of the highest among major Ohio electric utilities
4 in 2011. It is also higher than the PUCO-approved ROEs for DP&L in prior rate
5 cases (approving an ROE between 12.06% – 13.19%) and in the 2008 ESP
6 (approving an ROE of 11.30%).

7
8 Such a high ROE (14.05%) clearly indicates that, in 2011, DP&L's revenues
9 collected from its customers more than covered all O&M costs (including all
10 storm-related O&M expenses) and at the same time earned a very high return on
11 its invested capital. Because DP&L has fully recovered its costs (which include
12 all storm-related O&M expenses and a very high return on invested capital) in
13 2011, there is no financial need for DP&L to collect any deferred storm-related
14 O&M expenses.

15
16 Furthermore, given the ROE earned by DP&L in 2011, any additional collection
17 of revenues from its customers (as a result of the collection of the yet-to-be
18 deferred 2011 storm-related expenses) would amount to an unreasonable and
19 unjust increase in rates. The imposition and collection of these unreasonable and
20 unjust rates is contrary to the electric service policies of the state of Ohio and
21 long-standing regulatory principles.

1 ***Q28. IS THE PUCO'S APPROVAL FOR DP&L TO DEFER EXPENSES THE***
2 ***EQUIVALENT OF DP&L RECEIVING THE PUCO'S AUTHORIZATION***
3 ***TO COLLECT THOSE EXPENSES FROM CUSTOMERS?***

4 ***A28.*** No. It is well recognized that the PUCO's authorization to defer certain expenses
5 is not equivalent to the PUCO's authorization to collect the deferred expenses.
6 DP&L has consistently acknowledged this distinction. For example, in its 2008
7 storm expenses deferral Application (Case No. 08-1332-EL-AAM), DP&L stated
8 that:

9 "The Company at this time is not requesting to commence
10 recovery of O&M expenses associated with repairing/replacing
11 those distribution facilities damaged by Hurricane Ike. Instead, it
12 seeks approval for deferring the related O&M expenses and the
13 resultant carrying costs as described above."⁴²

14
15 Furthermore, in its 2012 Application for storm costs deferral (Case No. 12-2281-
16 EL-AAM), DP&L indicated that:

17 "[t]he requested deferral is an accounting procedure that does not
18 result in an increase in any rate or charge. Therefore, no hearing is
19 required on this application."⁴³

⁴² See, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify Its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 08-1332-EL-AAM, Application at paragraph 8 (December 26, 2008).

⁴³ See, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify Its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 12-2281-EL-AAM, Application at paragraph 9, (August 10, 2012).

1 More importantly, the PUCO has explicitly stated this distinction (that authority
2 for deferrals is not authority to collect the deferrals from customers) in many
3 instances. For example, in the Finding and Order for the 2008 Deferral
4 authorization, the PUCO stated:

5 “The determination of the reasonableness of the deferred amounts
6 and the recovery thereof, if any, will be examined and addressed in
7 a future proceeding before the Commission. As the Supreme
8 Court has previously held, *deferrals* do not constitute ratemaking.
9 *See Elyria Foundry Co. v. Pub. Util. Comm.* (2007), 114 Ohio
10 St.3d 305.”⁴⁴

11
12 Furthermore, the PUCO ordered “That nothing in this Entry shall be binding upon
13 the Commission in any subsequent investigation or proceeding involving the
14 justness or reasonableness of any rate, charge, rule, or regulation.”⁴⁵
15 Consequently, PUCO precedent clearly indicates there should not be any
16 presumption that a deferred amount would be fully collected in the future.

⁴⁴ See, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify Its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 08-1332-EL-AAM, Finding and Order at paragraph 6 (January 14, 2009).

⁴⁵ Id. Finding and Order at 3 (January 14, 2009).

1 ***Q29. DO YOU AGREE WITH DP&L'S ASSERTION THAT "MANY THIRD***
2 ***PARTIES, SUCH AS INVESTORS, LENDERS, AUDITORS, AND RATING***
3 ***AGENCIES, HAVE RELIED ON THE COMMISSION'S ORDER AND***
4 ***HISTORICAL PRECEDENTS THAT HAVE BEEN SET BY THE***
5 ***COMMISSION, AND IT WOULD BE UNREASONABLE TO DENY***
6 ***RECOVERY OF THE STORM EXPENSE IN LIGHT OF THAT***
7 ***RELIANCE"?⁴⁶***

8 ***A29.*** No. I do not agree with this assertion. First of all, as discussed above, it is well-
9 known and established that a PUCO authorization to defer is not an authorization
10 to collect the deferred costs. There is no ambiguity or uncertainty regarding this
11 regulatory policy of the PUCO. A regulated utility always bears a risk that an
12 authorization for deferral may be reduced or eliminated in a future proceeding.
13 This could happen for a number reasons such as the PUCO finding that the costs
14 were imprudent or that they were not just and reasonable. For example, in the
15 recent storm costs case of Duke Energy Ohio, Inc. ("Duke"), the PUCO
16 disallowed approximately half (\$14,368,667) of the amount that Duke sought to
17 collect (\$28,473,244) .⁴⁷ Second, the amount of deferral and the uncertainty in
18 collection are routinely disclosed in the publicly filed financial statements of the
19 regulated utility, and it was DP&L (not the PUCO) that made the decision to
20 reflect the deferrals on its financial statements that are read by third parties.

⁴⁶ See, Testimony in Response to Staff Audit Report of Michael E. Barrett at 3 (Jan. 17, 2014).

⁴⁷ See, *In the Matter of the Application of Duke Energy Ohio, Inc. to Establish and Adjust the Initial Level of its Distribution Reliability Rider*, Vase No. 09-1946-EL-RDR, Opinion and Order at 8, 25 (January 11, 2011).

Investors and rating agencies are knowledgeable and experienced entities with an explicit responsibility for assessing all the risk associated with the equity and debts of a particular utility. It is unreasonable to assume that the investors, financial analysts, and rating agencies are not fully aware of the risk facing DP&L in not collecting these previously deferred or non-deferred storm-related expenses. And the PUCO even stated in both deferral cases, Case Nos. 08-1332 and 12-2281 respectively, that granting the deferrals did not constitute ratemaking.⁴⁸

Q30. DO YOU AGREE WITH DP&L'S ASSERTION THAT "A COMMISSION ORDER AUTHORIZING A UTILITY TO RECORD AN EXPENSE AS A REGULATORY ASSET INDICATES TO INVESTORS AND LENDERS THAT THE AMOUNTS WILL PROBABLY BE RECOVERED IN A FUTURE PERIOD"?⁴⁹

A30. No. I do not agree with this assertion. As discussed above, the PUCO has explicitly ruled that allowing deferrals is not ratemaking and that the authorization of a deferral does not prevent the PUCO from finding that the deferred amounts were imprudent or unreasonable in a future proceeding. DP&L and third party investors and lenders must assess and assign the probability of collecting the

⁴⁸ *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Services Restoration Costs*, Case No. 08-1332-EL-AAM, Finding and Order at 2 (Jan. 14, 2009); *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedure for Certain Storm-Related Service Restoration Costs*, Case No. 12-2281-EL-AAM, Finding and Order at 4 (Dec. 19, 2012).

⁴⁹ See Testimony in Response to Staff Audit Report of Michael E. Barrett at 7.

1 deferred expenses based on their own information, knowledge and experience.

2 Those parties, however, are solely responsible for the consequences of their own
3 assessments. The PUCO should not be held hostage to the “reliance” claimed by
4 DP&L or the third party investors and lenders.

5 DP&L appears to be under the mistaken assumption that when a regulated utility
6 records a deferred expense as a regulatory asset in its financial statements, the
7 PUCO will (or should) allow the regulated utility to collect the deferred amount.⁵⁰

8 Under DP&L’s theory, the PUCO should not independently determine whether
9 the deferred expense is unneeded, imprudently incurred, or if the resulting rates
10 may be unjust and unreasonable. This position is contrary to established
11 regulatory principles and PUCO precedent, and it should be rejected by the
12 PUCO.

13

14 ***Q31. WOULD THE DISALLOWANCE OF DEFERRED STORM COSTS IN THIS***
15 ***PROCEEDING CONSTITUTE RETROACTIVE RATEMAKING AS***
16 ***CLAIMED BY DP&L’S WITNESS BARRETT?***⁵¹

17 ***A31.*** No. As previously explained, the PUCO has clearly stated that the authorization
18 of a deferral is not ratemaking and it does not change the rates charged to utility
19 customers. Consequently, the disallowance of deferred storm costs merely
20 affirms the 2008 rates already in place. It does not change the rates charged to
21 customers during the time period the storm expenses were deferred.

⁵⁰ See, Id. at 3-8.

⁵¹ See, Id. at 11-12.

1 **Q32. ARE YOU AWARE OF THE EFFECTS ON DP&L'S CURRENT**
2 **FINANCIAL PERFORMANCE IF THE 2008 AND 2011 STORM-RELATED**
3 **INCREMENTAL O&M EXPENSES WERE NOT COLLECTED FROM**
4 **CUSTOMERS?**

5 **A32.** Yes. But, in my opinion, write-offs resulting from a PUCO order disallowing
6 DP&L from charging customers for certain deferred storm-related expenses
7 should not be a factor in the PUCO's deliberation in this proceeding. The effect
8 that a disallowance will have on DP&L's current financial performance is
9 irrelevant because the very purpose of this proceeding is to determine whether
10 DP&L's storm-related O&M expenses for 2008 and 2011 should be disallowed,
11 among other issues.

12
13 Moreover, I estimated the total amounts of write-offs as a result of the
14 disallowance are modest. Specifically, the recoverable amount of incremental
15 O&M costs for the 2008, 2011, and 2012, after proposed adjustments by the
16 PUCO Staff, is approximately \$23.4 million (\$23,407,216).⁵² The total amount of
17 disallowance for 2008 and 2011 storm-related incremental O&M expenses will be
18 even smaller. Also, it should be noted that a disallowance of 2011 storm-related
19 incremental O&M expenses will not result in any write-off to DP&L because the
20 amounts have not been authorized by the PUCO to be deferred. As an alternative
21 measurement of the amount of possible write-offs, DP&L estimates that it

⁵² See, *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service Restoration Costs*, Case No. 12-3062-EL-RDR et al., Audit Report Submitted on Behalf of the Staff of The Public Utilities Commission of Ohio at 4 (January 3, 2014).

1 currently has recorded approximately \$20.1 million in deferred expenses and
2 carrying charges associated with the 2008 major storms.⁵³

3
4 Finally, this potential write-off of \$23.4 million or \$20.1 million is considerably
5 less than some write-offs taken by DP&L in the past. For example, in 2012
6 DP&L recorded a pre-tax write-off of \$80.8 million related to its Conesville and
7 Hutchings generating facilities. This write-off was disclosed in SEC Form 10Q/A
8 for the quarterly period ended September 30, 2012⁵⁴ and was unrelated to any
9 decision by the PUCO.⁵⁵ The write-offs of real and regulatory assets occur in the
10 normal course of doing business for a regulated utility. If there is any impairment
11 to the value of a real or a regulatory asset, a regulated utility needs to record such
12 impairment. The PUCO should not interfere with this process.

13
14 **IV. CONCLUSION**

15
16 ***Q33. DOES THIS CONCLUDE YOUR TESTIMONY?***

17 ***A33.*** Yes. However, I reserve the right to supplement my testimony in the event that
18 DP&L, the PUCO Staff or other parties submit additional testimonies, or if new
19 information or data in connection with this proceeding becomes available.

⁵³ See, Supplemental Testimony of Dona R. Seger-Lawson at 5.

⁵⁴ See, Second Revised Testimony of Craig L. Jackson at 5 in PUCO Case No. 12-426-EL-SSO.

⁵⁵ See, DPL Inc. Form 10-Q filed with the Securities and Exchange Commission on November 6, 2012 at 64, 101 and 102.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Direct Testimony of Daniel J. Duann, Ph.D.* was served on the persons stated below via electronic transmission this 31st day of January 2014.

/s/ Melissa R. Yost

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List of Testimonies Filed Before the PUCO

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2. *Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area*, Case No. 09-391-WS-AIR (January 4, 2010).
3. *Application of Aqua Ohio, Inc. for Authority to Increase its Rates and Charges in its Masury Division*, Case No. 09-560-WW-AIR (February 22, 2010).
4. *Application of Aqua Ohio, Inc. for Authority to increase its Rates and Charges in its Lake Erie Division*, Case No. 09-1044-WW-AIR (June 21, 2010).
5. *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company*, Case Nos. 09-872-EL-FAC and 09-873-EL-FAC (August 16, 2010).
6. *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Asset (Remand)*, Case Nos. 08-917-EL-SSO et al (June 30, 2011).
7. *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Modify and further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs et al.*, Case Nos. 11-2401-GA-ALT and 08-169-GA-ALT (July 15, 2011).
8. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (ESP)*, Case Nos. 11-346-EL-SSO, et al (July 25, 2011).
9. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Merge and Related Approval (ESP Stipulation)*, Case Nos. 10-2376-EL-UNC, et al (September 27, 2011).
10. *In the Matter of the 2010 Annual Filing of Columbus Southern Power Company and Ohio Power Company Required by Rule 4901:1-35-10, Ohio Administrative Code*, Case Nos. 11-4571-EL-UNC and 11-4572-EL-UNC (October 12, 2011).

11. *In the Matter of the Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area*, Case No. 11-4161-WS-AIR (March 1, 2012).
12. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (Modified ESP)*, Case Nos. 11-346-EL-SSO, et al (May 4, 2012).
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14. *In the Matter of the Application of Duke Energy Ohio Inc. for an Increase in Electric Distribution Rates*, Case No. 12-1682-EL-AIR et al. (February 19, 2013).
15. *In the Matter of the Application of Duke Energy Ohio Inc. for an Increase in Gas Distribution Rates*, Case No. 12-1685-GA-AIR et al. (February 25, 2013).
16. *In the Matter of the Application of Dayton Power & Light Company For Authority to Establish a Standard Service Offer in the Form Of an Electric Security Plan Pursuant to R.C. § 4928.143*, Case No. 12-426-EL-SSO et al. (March 1, 2013).

Daniel J. Duann, Ph.D.
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