

**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION OF OHIO**

**THE DAYTON POWER AND LIGHT COMPANY**

**CASE NO. 12-3062-EL-RDR**

**CASE NO. 12-3266-EL-AAM**

**STORM DAMAGE RECOVERY REQUEST**

**REBUTTAL TESTIMONY  
OF GREGORY S. CAMPBELL**

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

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**PUBLIC UTILITIES COMMISSION OF OHIO**  
**REBUTTAL TESTIMONY OF**  
**GREGORY S. CAMPBELL**  
**ON BEHALF OF**  
**THE DAYTON POWER AND LIGHT COMPANY**

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1    **I.    INTRODUCTION AND SUMMARY**

2    **Q.    Please state your name, current position, and business address.**

3    A.    My name is Gregory S. Campbell. I am a consultant for Dayton Power and Light. My  
4        business address is 3426 Sasse Way, Louisville, KY 40245.

5    **Q.    On whose behalf are you testifying?**

6    A.    I am testifying on behalf of The Dayton Power & Light Company ("DP&L").

7    **Q.    Did you previously file testimony in this proceeding?**

8    A.    Yes, on December 21, 2012, I filed testimony in support of DP&L's Application.

9    **Q.    What is the purpose of your testimony?**

10   A.    The purpose of my testimony is to respond to the testimony of OCC witness David J.  
11        Effron that the Commission should deny DP&L's request to recover expenses associated  
12        with 2011 major storms.

13   **II.   DP&L'S ACCOUNTING TREATMENT OF THE 2011 STORM**  
14   **EXPENSES WAS APPROPRIATE AND BENEFITED CUSTOMERS**

15   **Q.    Can you describe how DP&L's expenses for responding to the 2011 major storms**  
16        **were treated on DP&L's accounting records?**

17   A.    Yes. The costs incurred for the 2011 major storms were recorded as an expense in 2011.  
18        They were not deferred in 2011. On December 21, 2012, DP&L filed this case and

1 sought Commission approval of DP&L's request to defer and recover those costs. At the  
2 end of 2012, as DP&L is required to do each quarter by the accounting guidelines, DP&L  
3 evaluated all of its costs subject to potential regulatory accounting treatment and  
4 determined that the 2011 storm costs were probable of recovery. DP&L thus deferred  
5 those costs as a regulatory asset (i.e., moved those expenses to a regulatory asset on the  
6 balance sheet).

7 **Q. Can you explain your role in the decisions leading to that treatment?**

8 A. Yes. At that time, I was the Director of Accounting Policy and Reporting for DP&L and  
9 was involved in those accounting decisions. The Company is responsible for ensuring  
10 that its accounting treatment of those expenses was appropriate under governing  
11 accounting standards. DP&L was subject to potential lawsuits by investors if there were  
12 material misstatements in DP&L's financial statements. We concluded then, and I still  
13 believe, that DP&L's treatment of those 2011 expenses was appropriate under governing  
14 accounting standards.

15 **Q. Was DP&L's decision to defer its 2011 storm expenses reviewed by DP&L's outside**  
16 **auditor?**

17 A. Yes. That decision was reviewed at the time by DP&L's outside auditor, Ernst & Young,  
18 LLP ("E&Y"). As an outside auditor, E&Y has an independent obligation to ensure that  
19 DP&L's accounting treatment of those expenses was appropriate under governing  
20 accounting standards. I had conversations with E&Y about whether it was appropriate

1 for DP&L to defer the 2011 storm expenses, and E&Y concluded that DP&L's treatment  
2 of those 2011 expenses was appropriate under governing accounting standards.

3 **Q. Is there any accounting rule that required DP&L to record those 2011 expenses as a**  
4 **deferral at an earlier date?**

5 A. No, there is not. Under governing accounting rules, including Generally Accepted  
6 Accounting Principles (GAAP), DP&L was required to defer those costs only if and  
7 when they became probable for recovery. In my judgment, those costs became probable  
8 for recovery once DP&L decided to file the Application in this case to seek recovery of  
9 those assets. It was thus necessary and appropriate for DP&L to defer those expenses at  
10 that time.

11 **Q. Was it appropriate under governing accounting rules and GAAP for DP&L to**  
12 **record the 2011 storm expenses as a deferral before the Commission granted**  
13 **DP&L's request to defer those expenses?**

14 A. Yes. As demonstrated in Mr. Barrett's Testimony in response to the Staff Report, which I  
15 adopt and sponsor, DP&L should record the 2011 expenses as a deferral once they  
16 become "probable" for recovery. Although utilities frequently wait until the Commission  
17 authorizes a deferral before recording expenses as a deferral, there is no requirement that  
18 utilities do so. The only requirement for recording a deferral of expenses is that they be  
19 probable for recovery. Here, in light of the Commission's historic treatment of storm  
20 expenses for DP&L and for other Ohio utilities, DP&L concluded that its 2011 major  
21 storm expenses were probable for recovery after DP&L filed the Application in this case.

1 I agreed at the time and agree now with that assessment. DP&L thus recorded those  
2 expenses as a deferral at the end of 2012.

3 **Q. Is it acceptable or “normal” under the accounting rules, including GAAP, to not**  
4 **defer costs in one period then defer those same costs in another subsequent period?**

5 A. Yes. The accounting guidance under FASC 980 requires that a company evaluate its  
6 regulatory accounting each quarter and make the appropriate adjustments based on the  
7 evidence of the probability of future rate recovery. Based on this evaluation, the  
8 accounting for costs could and frequently does change each quarter. In fact, FASC 980  
9 includes guidance for these types of events, which DP&L followed. FASC 980-340-25-1  
10 states:

11 *Rate actions of a regulator can provide reasonable assurance of the existence of*  
12 *an asset. An entity shall capitalize all or part of an incurred cost that would*  
13 *otherwise be charged to expense if both of the following criteria are met:*

14 *a. It is probable (as defined in Topic 450) that future revenue in an amount*  
15 *at least equal to the capitalized cost will result from inclusion of that cost in*  
16 *allowable costs for rate-making purposes.*

17 *b. Based on available evidence, the future revenue will be provided to permit*  
18 *recovery of the previously incurred cost rather than to provide for expected levels*  
19 *of similar future costs. If the revenue will be provided through an automatic rate-*  
20 *adjustment clause, this criterion requires that the regulator’s intent clearly be to*  
21 *permit recovery of the previously incurred cost.*

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. (emphasis added)

**Q. Would it have been appropriate for DP&L to re-state previously filed financial statements to reflect the deferral in the earlier period when the expenses were incurred?**

A. No. It would be inappropriate to re-state previously filed financial statement to reflect updated information received in subsequent years. Previously filed SEC statements may be re-stated for errors, but a change in a subsequent period due to updated information is not considered an error. It was appropriate for DP&L to reflect the accounting change in the period that the updated information was received.

**Q. Did customers receive any benefit from the fact that DP&L waited until 2012 to record the 2011 storm expenses as a deferral?**

A. Yes. DP&L's customers received a benefit from DP&L's decision to expense the costs in 2011. Specifically, because the costs were not deferred in 2011, the costs did not accrue any carrying charges at that time. If DP&L had deferred the costs and sought a deferral accounting order from the Commission in 2011, then DP&L would have begun recording carrying charges at an earlier date, and the balance that DP&L would recover from the customer would be higher.

**Q. Did DP&L receive any benefit from waiting until 2012 to record the 2011 storm expenses as a deferral?**

1 A. DP&L did not receive any financial benefits by waiting until 2012 to record the 2011  
2 storm expenses as a deferral. In fact the financial volatility that was incurred by  
3 expensing the costs in 2011 and then deferring the costs in late 2012 could be viewed as a  
4 negative.

5 **Q. Will the overall impact to DP&L's income, expense or financial statements be any**  
6 **different for the 2011 major storms when compared to typical storm cost recovery?**

7 A. No. While the year in which the deferral of 2011 major storm expenses were recorded on  
8 DP&L's records was different when compared to the other storms at issue in this case (the  
9 2011 storms were recorded as a deferral in the year after they occurred; the other storms  
10 were recorded as a deferral in the year that they occurred), that one-year delay does not  
11 have any impact on DP&L's total earnings over the relevant years. The overall impact to  
12 DP&L's income, expense and financial statements will not vary from other storm  
13 recovery cases. The costs were deferred when they were determined to be probable for  
14 recovery and they will be expensed in a subsequent period, at the same time as the  
15 Company receives revenues for these expenses.

16 **Q. Can you respond to Mr. Effron's claim (p. 9) that "approval of the Stipulation**  
17 **would violate the regulatory principle that a utility's own internal accounting**  
18 **decision cannot by itself establish a right to prospective recovery of expenses**  
19 **deferred on its books of account"?**

20 A. Yes. DP&L does not claim that it should be permitted to recover its 2011 storm expenses  
21 because DP&L made the decision to defer those expenses. Rather, DP&L claims that it

1 should be permitted to recover those expenses because those 2011 storm expenses were  
2 for unusual storms, and DP&L's Stipulations and Commission precedent establish that  
3 they are recoverable. These are the very same facts that DP&L relied upon when  
4 determining whether the expenses were probable for recovery.

5 **Q. Is Mr. Effron's claim that the Commission should deny DP&L's request to recover**  
6 **expenses associated with 2011 major storms because the deferral request was not**  
7 **timely reasonable?**

8 A. No. As explained above, DP&L's accounting treatment of the 2011 storm expenses was  
9 reasonable and appropriate. Further, DP&L did not benefit from the delay in seeking a  
10 deferral of 2011 storm expenses, and customers will benefit from that delay due to  
11 reduced carrying costs. If those 2011 expenses were prudently incurred, then there was  
12 nothing about the accounting treatment of those 2011 expenses that suggests that  
13 recovery of them should be denied.

14 **III. CONCLUSION**

15 **Q. Does this conclude your rebuttal testimony?**

16 A. Yes, it does.

## **CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing Rebuttal Testimony of Gregory S. Campbell has been served via electronic mail upon the following counsel of record, this 29th day of May, 2014:

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

**Commission of Ohio Docketing Information System on**

**5/30/2014 10:04:51 AM**

**in**

**Case No(s). 12-3062-EL-RDR, 12-3266-EL-AAM**

Summary: Testimony Rebuttal Testimony of Gregory S. Campbell electronically filed by Mr. Jeffrey S Sharkey on behalf of The Dayton Power and Light Company