BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the Significantly Excessive Earnings Test under Section 4928.143(F), Ohio Revised Code, and Rule 4901:1-35-03(C)(10), Ohio Administrative Code for The Dayton Power and Light Company	: : : : : :	Case No. 15-0928-EL-UNC

**APPLICATION OF
THE DAYTON POWER AND LIGHT COMPANY
FOR ADMINISTRATION OF
THE SIGNIFICANTLY EXCESSIVE EARNINGS TEST**

This Application seeks a Commission Finding that The Dayton Power and Light Company ("DP&L") did not have significantly excessive earnings under Ohio Rev. Code §4928.143(F) for calendar year 2014. In the Opinion and Order of the Public Utilities Commission of Ohio ("PUCO" or "Commission") dated September 4, 2013, in Case Nos. 12-0426-EL-SSO, *et al*, the Commission found that "a significantly excessive earnings test ("SEET") threshold of 12 percent should be established."[1] Accordingly, DP&L files this Application to enable review by this Commission of its 2014 calendar year earnings. As supported in testimony by Company Witness Craig Forestal, the Company's 2014 earnings were 9.3 percent, well below the 12 percent SEET threshold.

1. Under Ohio Rev. Code §4928.143(F), the Commission is to consider whether there were "excessive earnings as measured by whether the earned return on common equity of the electric distribution utility is significantly in excess of the return on common equity that was earned during the same period by publicly traded companies, including utilities, that

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1 ESP Opinion and Order, at 26.

face comparable business and financial risk, with such adjustments for capital structure as may be appropriate." Pursuant to Ohio Rev. Code §4928.143(F) and Ohio Administrative Code §4901:1-35-03(C)(10), DP&L requests the Commission's determination that significantly excessive earnings did not result for DP&L with respect to the annual period ending December 31, 2014.

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

a. DP&L's SEC Commission Form 10-K for the period ending December 31, 2014 is electronically available at http://www.sec.gov/Archives/edgar/data/27430/000078725015000005/0000787250-15-000005-index.htm;

b. DP&L's Federal Energy Regulatory Commission Form No. 1 for the annual period ending December 31, 2014 is electronically available at http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=13844236;

c. The attached testimony and exhibits of Company witness Craig Forestal, including DP&L's capital budget requirements which are attached as Exhibit CAF-5.

WHEREFORE, DP&L requests that the Commission determine, and find as fact, that for the annual period ending December 31, 2014, DP&L's earnings were not significantly excessive.

Respectfully submitted,

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BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

CASE NO. 15-0928-EL-UNC

ANNUAL CALENDAR 2014 FILING REQUIRED BY RULE 4901:1-35-10, OHIO ADMINISTRATIVE CODE

DIRECT TESTIMONY

OF CRAIG A. FORESTAL, CPA

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

BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

DIRECT TESTIMONY OF

CRAIG A. FORESTAL, CPA

ON BEHALF OF
THE DAYTON POWER AND LIGHT COMPANY

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Craig Forestal. My business address is One Monument Circle, Indianapolis, IN 46204.

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

A. I am employed by a subsidiary of the AES Corporation, and serve as Director of Regulatory Accounting for its United States utility businesses which include The Dayton Power & Light Company ("DP&L" or "Company"), as well as Indianapolis Power & Light Company ("IPL").

Q. Please summarize your work experience with AES.

A. I was an employee of IPL from May 2002 through December 2013. During my tenure with IPL, I worked in various positions including senior accountant, Team Leader of Corporate Accounting and Director of Regulatory Accounting. I served as the primary accounting witness in regulatory commission filings for IPL for the past eight years and continue to serve in that capacity today. In June of 2013, I began transitioning into my current role where I preside over regulatory accounting for both DP&L and IPL. I report to the Controller of the AES United States Strategic Business Unit who also serves as the Controller of DP&L.

Q. Have you testified in front of this Commission before?

A. Yes. I was the witness for DP&L's Annual Calendar 2013 Filing Required by rule 4901:1-35-10, Ohio Administrative Code, or SEET.

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

A. I hold a Bachelor of Science Degree in Accounting from Ball State University and a Certified Public Accountant's License with the State of Indiana. I have over 23 years of accounting experience in various industries including telephone and electric utilities, real estate investment trusts and public accounting. I have 13 years of electric utility accounting experience.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to support the calculation of the Company's Return on Equity ("ROE") and provide the accounting and financial information required by Section 4901:1-35-10 of the Ohio Administrative Code regarding the Significant Excessive Earnings Test ("SEET"). In addition, my testimony and supporting schedules will demonstrate that DP&L's adjusted return on equity of 9.3% for the year 2014 demonstrates that DP&L's ROE fell well below the significantly excessive earnings threshold established at 12% pursuant to the Opinion and Order of the PUCO dated September 4, 2013, in Case Nos. 12-0426-EL-SSO, *et al*, and therefore significantly excessive earnings did not occur at the utility

Q. What Exhibits are you supporting?

A. I am supporting Exhibits CAF-1 through CAF-5 attached.

II. SEET BACKGROUND

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

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

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

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

Q. Where can one find copies of DP&L's 2014 financial statement filings with the Securities & Exchange Commission ("SEC") and the Federal Energy Regulatory Commission ("FERC")?

A. DP&L's Annual Report on Form 10-K can easily be found by doing a search on the SEC's website for "Dayton Power" at http://www.sec.gov/edgar/searchedgar/companysearch.html. Likewise, DP&L's FERC Financial Report FERC Form 1 can easily be found on FERC's website by searching "Dayton Power" at http://elibrary.ferc.gov/idmws/search/fercadvsearch.asp.

III. <u>EXHIBITS AND DISCUSSION</u>

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

A. I am responsible for the following exhibits:

Exhibit CAF-1: Calculation of Per Books Return on Equity

Exhibit CAF-2: Calculation of Per Books Return on Equity with Adjustment

Exhibit CAF-3: Return on Equity Pro Formas – Without Major Regulatory Asset Deferrals

Exhibit CAF-4: Major Regulatory Asset Changes

Exhibit CAF-5: Future Estimated Ohio Capital Expenditures

Q. Please explain Exhibit CAF-1, Calculation of Per Books Return on Equity and Exhibit CAF-2 Calculation of Per Books Return on Equity with Adjustment.

A. Exhibit CAF-1 shows the per books ROE using the unadjusted per books amounts from the FERC Form 1. It produces a ROE of 9.7%.

Exhibit CAF-2 has two adjustments to the per books ROE calculation. The first adjustment adds back the estimated penalty accrual reduction recorded in FERC Account No. 426.3 of $51,000. The second adjustment removes the impact on common equity (on an after tax basis) of impairment losses recorded in 2012 and 2013 on two of DP&L's coal-fired generating stations (Conesville and Hutchings). These assets are still on DP&L's books at the reduced values due to the impairment losses. The impairment loss recorded in 2013 related to the East Bend power plant was not added back, because that property was sold in 2014. The net addback was $58,252,000.

The overall per books ROE with the above adjustments is 9.3%.

DP&L did not have any equity returns in its prior ESP case that need to be removed from the calculation of the ROE for the SEET review for calendar 2014.

Q. What does Exhibit CAF-3 demonstrate?

A. Exhibit CAF-3 demonstrates the impact on earnings of adding back the calendar 2014 major regulatory deferrals to show their effect on the ROE for the SEET. The Commission Order in Case No. 09-786-EL-UNC requested the presentation of the ROE with and without regulatory asset deferrals to determine if they should or should not be included in the SEET.

Q. Please explain the calculations on Exhibit CAF-3.

A. Exhibit CAF-3 demonstrates the removal of the regulatory asset deferral impact from earnings and equity. I started with the Earnings for Common and Common Equity previously developed on Exhibit CAF- 2. From the earnings for common, I removed the major regulatory asset deferral/feedback impacts for 2014, net of tax, to arrive at the adjusted earnings for common equity. The 2014 regulatory asset deferral impact is calculated on separate Exhibit CAF-4. For calendar year 2014 it was a net feedback. I also removed the major regulatory asset deferral/feedback from the common equity.

After removing the impact on earnings for common and adjusting the common equity, the pro forma ROE for 2014 is 9.4%.

Q. Please explain the major regulatory asset changes on Exhibit CAF-4.

A. Exhibit CAF-4 summarizes the major regulatory asset balances at the beginning and end of calendar 2014 to reflect the changes as the net impact of deferrals for calendar 2014.

The exhibit also shows the after tax impact of each item using DP&L's statutory tax rates.

Q. Please explain Exhibit CAF-5, Future Estimated Ohio Capital Expenditures.

A. Exhibit CAF-5 shows the future estimated Ohio jurisdictional capital expenditures for each of the calendar years 2015 through 2019. It is based on DP&L's current estimates of future capital spending and the 2015, 2016 and 2017 amounts are consistent with amounts disclosed in the 2014 Form 10-K.

The Commission could use this forecast to adjust the appropriate ROE for the SEET review if the Company was expecting major capital investments or facing a tremendous capital need. I did not adjust the 2014 ROE to consider these planned investments.

Q. Have you included a calculation of ROE which excludes wholesale margin?

A. A calculation of ROE excluding wholesale margin has not been included. My expectation is this calculation will show a smaller ROE, which of course will still be below the earnings limit of 12%. An administrative issue prevented including this calculation in this filing. DP&L will file a supplemental schedule reflecting an ROE which excludes wholesale margin as an amendment to this filing within two weeks.

Q. Has the Commission established a SEET threshold applicable to DP&L?

A. Yes.

Q. What is the SEET threshold to which DP&L is subject?

A. In Case Nos. 12-0426-EL-SSO, *et al*. approved by the PUCO on September 4, 2013, I understand that the Commission established a threshold ROE of 12%.

IV. CONCLUSION

Q. Please summarize your testimony.

A. In summary, the appropriate threshold against which to compare DP&L's earnings for 2014 in order to establish that significantly excessive earnings did not occur is the 12% threshold imposed pursuant to the Opinion and Order of the PUCO dated September 4, 2013, in Case Nos. 12-0426-EL-SSO, *et al*. DP&L's adjusted ROE for calendar year 2014 is 9.3%, as calculated on Exhibit CAF-2. Based upon this 9.3% ROE, DP&L did not have significantly excessive earnings in calendar 2014. As previously stated, this calculation does not include a reduction for wholesale margin, so it is subject to change. It is not expected that the change will cause ROE to rise above the 12% threshold.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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Calculation of Per Books Return on Equity - Base

Line No.	Description	Calendar 2014 Income Statement	Balance Sheet December 31, 2013	Balance Sheet December 31, 2014	Average Beginning and Ending Balances	Comments
(A)	(B)	(C)	(D)	(E)	(Col. (D)+(E))/2 = (F)	(G)
		($000's)	($000's)	($000's)	($000's)	
1	Earnings for Common					
2	Net Income	115,022				2014 FERC Form 1, Page 117, Line 71, Col (C)
3	Preferred Dividends	(867)				2014 FERC Form 1, Page 118, Line 29, Col (C)
4	Earnings for Common	114,155				Line 2 plus Line 3.
5	Common Equity					
6	Proprietary Capital		1,226,702	1,166,224	1,196,463	2014 FERC Form 1, Page 112, Line 16
7	Preferred Stock Outstanding		(22,851)	(22,851)	(22,851)	2014 FERC Form 1, Page 112, Line 3
8	Common Equity		1,203,851	1,143,373	1,173,612	Line 6 plus Line 7
9	Return on Equity - Base				9.7%	Line 4 divided by Line 8, Col (F)

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Calculation of Per Books Return on Equity - Base with Adjustment

Line No.	Description	Calendar 2014 Income Statement	Balance Sheet December 31, 2013	Balance Sheet December 31, 2014	Average Beginning and Ending Balances	Comments
(A)	(B)	(C)	(D)	(E)	(Col. (D)+(E))/2 = (F)	(G)
		($000's)	($000's)	($000's)	($000's)	
1	Earnings for Common					
2	Net Income	115,022				2014 FERC Form 1, Page 117, Line 71, Col (C)
3	Preferred Dividends	(867)				2014 FERC Form 1, Page 118, Line 29, Col (C)
4	Earnings for Common	114,155				Line 2 plus Line 3
5	Accrued Penalty in Account 426.3	51				2014 FERC Form 1, Page 117, Line 47, Col (C)
6	Fixed Asset Impairment, Net of Tax	-				2014 Impairment; Income Statement
7	Adjusted Earnings for Common	114,206				Sum of Lines 4 thru 6
8	Common Equity					
9	Proprietary Capital		1,226,702	1,166,224	1,196,463	2014 FERC Form 1, Page 112, Line 16
10	Preferred Stock Outstanding		(22,851)	(22,851)	(22,851)	2014 FERC Form 1, Page 112, Line 3
11	Common Equity		1,203,851	1,143,373	1,173,612	Line 9 plus Line 10
12			(169)	51	(59)	Line 5
13	Fixed Asset Impairment		58,252	58,252	58,252	Per Accounting Records
14	Adjusted Common Equity		1,261,934	1,201,676	1,231,805	Sum of Lines 11 thru 13
15	Return on Equity - Base with Adjustment				9.3%	Line 7 divided by Line 14, Col (F)

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Return on Equity Pro Formas - Without Major Regulatory Asset Deferrals

Line No.	Description	Calendar 2014 Income Statement	Balance Sheet December 31, 2013	Balance Sheet December 31, 2014	Average Balance Sheets	Comments
(A)	(B)	(C)	(D)	(E)	(Col. (D)+(E))/2 = (F)	(G)
		($000's)	($000's)	($000's)	($000's)	
1	Earnings for Common					
2	Net Income	115,022				2014 FERC Form 1, Page 117, Line 71, Col (C)
3	Preferred Dividends	(867)				2014 FERC Form 1, Page 118, Line 29, Col (C)
4	Earnings for Common	114,155				Line 2 plus Line 3
5	Accrued Penalty in Account 426.3	51				2014 FERC Form 1, Page 117, Line 47, Col (C)
6	Fixed Asset Impairment, Net of Tax	-				2014 Impairment; Income Statement
7	Major Regulatory Asset Deferrals, Net of Tax	1,996				Exhibit CAF-4, Page 1 of 1, Line 6
8	Adjusted Earnings for Common	116,202				Sum of Lines 4 thru 7
9	Common Equity					
10	Proprietary Capital		1,226,702	1,166,224	1,196,463	2014 FERC Form 1, Page 112, Line 16
11	Preferred Stock Outstanding		(22,851)	(22,851)	(22,851)	2014 FERC Form 1, Page 112, Line 3
12	Common Equity		1,203,851	1,143,373	1,173,612	Line 10 plus Line 11
13	Reduction of Accrued Penalty in Account 426.3		(169)	51	(59)	Line 5
14	Fixed Asset Impairment		58,252	58,252	58,252	Per Accounting Records
15	Major Regulatory Asset Deferrals		4,319	1,996	3,158	Line 7
16	Adjusted Common Equity		1,266,253	1,203,672	1,234,963	Sum of Lines 12 thru 15
17	Return on Equity - Without Major Regulatory Asset Deferrals				9.4%	Line 8 divided by Line 16, Col (F)

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Major Regulatory Assets Changes - Recap

Line No.	Description	2014	2013	Change Before Tax Impact	Change After Tax Impact	Comments
(A)	(B)	(C)	(D)	(E)	(F)	(G)
				($000's)	($000's)	
1	Impact on 2014 Earnings Favorable (Unfavorable)					
2	Fuel and purchased power recovery costs	16,263	6,338	9,925	6,769	Per Accounting Records
3	Energy efficiency program	1,738	7,652	(5,914)	(4,033)	Per Accounting Records
4	Transmission costs	(2,940)	2,555	(5,495)	(3,748)	Per Accounting Records
5	Alternative Energy	249	1,692	(1,443)	(984)	Per Accounting Records
6	Total	15,310	18,237	(2,927)	(1,996)	Sum of Lines 2 thru 5

The exhibit shows the 2014 earnings impact of DP&L's major regulatory asset deferrals.
Column (F) is the product of Column (E) times the inverse of the tax rate of 31.8%.

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Future Estimated Ohio Capital Expenditures

Line No.	Description	2015	2016	2017	2018	2019	Comments
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
		($ millions)	($ millions)	($ millions)	($ millions)	($ millions)	
1	Ohio Estimated Capital Expenditures	128	135	115	104	98	

Note: Schedule assumes generation separation as of 12/31/2016 and doesn't include generation capital expenditures from 2017 through 2019.