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Ohio | **Public Utilities Commission**

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January 25, 2017

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of The Dayton Power and Light Company to Update Its Energy Efficiency Rider, Case Nos. 14-1080-EL-RDR and 16-329-EL-RDR*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the applications filed by The Dayton Power and Light Company, to update its Uncollectible Expense Rider, in Case Nos. 14-1080-EL-RDR and 16-329-EL-RDR.

David Lipthratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Tamara S. Turkenton
Chief, Regulatory Services Division
Public Utilities Commission of Ohio

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The Dayton Power and Light Company
Case No. 14-1080-EL-RDR
And
Case No. 16-329-EL-RDR

OVERVIEW

On June 30, 2014, The Dayton Power and Light Company (DP&L or the Company) filed Case No. 14-1080-EL-RDR, requesting approval to adjust its Energy Efficiency Rider (EER) for the period September 2014 through August 2015 with a proposed residential rate of $0.0035779 per kWh. Subsequently, on March 14, 2016, DP&L filed Case No. 16-329-EL-RDR requesting to adjust its EER for the period April 2016 through December 2016 with a proposed residential rate of $0.0040859 per kWh. The proposed EER rates include true-up costs for under - or - over recovery in prior periods and projection of future costs associated with its energy efficiency program.

Staff has completed the audit of DP&L's EER applications in Case Nos. 14-1080-EL-RDR and 16-329-EL-RDR by auditing the Company's actual cost and revenues from December 2013 through December 2015 and issues this Staff Letter detailing the results of both audits.

STAFF REVIEW

Staff's annual review of the Company's EER in Case Nos. 14-1080-EL-RDR and 16-329-EL-RDR consisted of a review of the incurred costs, including operation and maintenance (O&M) expenses in order to review prudency and eligibility for recovery, as well as confirmation of the calculations to verify the accuracy of the revenue requirement calculation. The audit consisted of a review of the schedules regarding completeness, occurrence, presentation, valuation, allocation, and accuracy. Staff conducted this audit through a combination of document reviews, interviews, and interrogatories and requested documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted. Staff reviewed this documentation for prudency and appropriateness for recovery, and also determined whether the expense transactions were truly incremental to the amount in base rates.

CASE NO. 14-1080-EL-RDR

Staff identified $97,780 in reductions associated with Case No. 14-1080-EL-RDR and the following paragraphs describe the recommended adjustments.

Incentives

Staff discovered that $111,447 in bonus incentives was paid to employees working in the Energy Efficiency Department. Through data requests, Staff discovered that 25% of the total incentive was awarded by meeting goals of the parent company's non-regulated entities and 60% was awarded based upon meeting financial goals for a total combined percentage of 70%. Staff typically does not allow financial incentives paid to employees to be recovered from ratepayers. Therefore, Staff recommends incentives of $78,013 (70% of 111,447) be removed from the EER.

Meals, Snacks, and Drinks

Meals, snacks, and drinks were purchased for local meetings and in-house staff meetings and are typically not recoverable expenses for this rider. According to the Company's "Employee Expense Reimbursement Policy and Procedure" (Item 4.1), "It is DP&L's policy to reimburse employees for all reasonable business expenses incurred on behalf of the Company in compliance with all IRS regulations..." Staff believes that having meetings over lunch at local restaurants or bringing food, drinks, and snacks into the office for meetings does not meet this "reasonableness standard" as it relates to recovery from customers. Customers should not be expected to pay for meals that occur during lunch when the meeting could have been held at different times of the day. Therefore, Staff recommends expenses of $1,077 be removed from the EER.

Sponsorships

Staff identified $16,650 in Company sponsorships that was charged to the EER. The sponsorships were related to the Dayton Dragons baseball team, the Spring Energy Expo, the Small Business Strategies Seminar, and the Dayton Financing Workshop. It is Staff's belief that sponsorships are strictly promotional in nature, and that this type of advertising should not be recoverable. Therefore, Staff recommends expenses of $16,650 be removed from the EER.

Cellular Phones and Accessories

Staff identified $144 that was charged to the rider for purchases of cellular phones and accessories. These items have uses beyond the EER and the Company has allowances in base rates for these types of supplies and accessories. Therefore, Staff recommends expenses of $144 be removed from the EER.

Baseball Tickets

The Company included $1,764 worth of baseball tickets that were provided to channel partners as awards. These costs should not be paid for by customers. These awards may provide goodwill for the Company, but does not make them appropriate for recovery from customers. Therefore, Staff recommends expenses of $1,764 be removed from the EER.

Miscellaneous Expenses

Staff identified $132 in miscellaneous expenses charged to the EER that should be borne by the shareholders and as they are not appropriate for recovery from customers. Therefore, Staff recommends expenses of $132 be removed from the EER.

CASE NO. 16-329-EL-RDR

Staff identified $242,599 in reductions associated with Case No. 16-329-EL-RDR and the following paragraphs describe the recommended adjustments.

Incentives

The Company paid $136,973 as bonus incentives to employees working in the Energy Efficiency Department. Through data request responses, Staff discovered, that 60% of the total incentive was awarded by meeting Company financial goals. Staff typically does not allow financial incentives, paid to employees, to be recovered from ratepayers. Therefore, Staff recommends that expenses of $82,184 (60% of $136,973) be removed from the EER.

Meals, Snacks, and Drinks

Staff identified numerous entertainment expenses for meals, food, and drinks. The supporting documentation included charges for lunches, team dinners, food served at internal business meetings, snacks, and other food and refreshments. Staff notes that there was a high volume of expenses for lunches, other meals, and food and beverages served at various meetings. In addition, there were other entertainment expenses that included photo booths and a culinary walking bike bar that were included in the EER as well. It is Staff's opinion that these expenses are costs that should be borne by the Company or its employees and not by the customers. Therefore, Staff recommends these expenses totaling $11,164 be removed from the EER.

COMMON ADJUSTMENTS

Carrying Charges

Staff reviewed the Company's calculation of carrying costs associated with administering their EER. Based upon its review, Staff determined that the Company allocated its anticipated monthly shared savings recovery in its carrying cost computation. It is Staff's view that the recovery of carrying costs, in association with shared savings, overstates the amount of carrying costs incurred, and thus increases the amount of shared savings actually recovered. Staff recommends the removal of monthly shared savings amounts from the Company's carrying cost computation going

forward and that the Company work with Staff to come up with an agreed upon method to display its shared savings calculation.

Equity Gross Revenue Conversion Factor

In Case No. 14-1080-EL-RDR on DP&L's schedule WPC-4, the Company included both Kentucky and Pennsylvania income tax in the equity gross revenue conversion factor. In Case No. 16-329-EL-RDR on the Company's schedule WPC-3, only the Kentucky income tax was included in the equity gross revenue conversion factor. If a nexus exists with other states, an apportionment of the Ohio Commercial Activities Tax (CAT) is warranted. However, income that is generated in other states, should not be fully grossed up for Ohio CAT. Because a recalculation of this conversion factor resulted in a negligible amount, there is no adjustment recommended. However, on a going forward basis, Staff recommends that the Company use a calculation method that divides the tax among applicable states.

O&M/Debt Gross Revenue Conversion Factor

In Case No. 14-1080-EL-RDR on Schedule WPC-4, the Company included income tax gross up conversion rates for Kentucky and Pennsylvania. In Case No. 16-329-EL-RDR, the Kentucky income tax (KIT) and Pennsylvania income tax (PIT) factor was zero, therefore, there was no effect on the rate. However, on a going forward basis, Staff recommends that Kentucky and Pennsylvania income tax conversion rates be omitted from the O&M/Debt Gross Revenue Conversion Factor.

Double Gross Up of the Shared Savings Component

The shared savings revenues in schedules B-1, B-2, C-1, and C-2 have an embedded equity gross up in both Case Nos. 14-1080-EL-RDR and 16-329-EL-RDR. The O&M gross up conversion factor is then applied to the shared savings component in the same schedules. This results in double gross-up of the shared savings revenue for uncollectible debt and CAT. Therefore, Staff recommends an elimination of the double recovery of uncollectable debt and Ohio CAT on this revenue. The removal of the additional gross up of shared savings results in a reduction of approximately $149,251 for both cases combined. Therefore, Staff recommends that expenses of $149,251 be removed from the EER.

SHARED SAVINGS AND LOST DISTRIBUTION REVENUE

In its filings in these cases, the Company requested approval to adjust its Rider EER in order to recover costs related to compliance with statutory energy efficiency requirements. Included in this adjustment request were items such as estimated costs of implementing its energy efficiency program, lost distribution revenue, performance incentives in the form of shared savings, and true-up adjustments for cost recovery from prior periods. Staff notes that actual costs incurred during the review period included in the Company's filings for recovery in Rider EER are the subject of

the evaluation of this financial audit. However, the claimed energy savings, which form the basis for the Company's calculation of shared savings and lost distribution revenue, have yet to be verified and approved through the Commission's EM&V process. Staff therefore recommends that any approval given by the Commission for the Company to adjust its Rider EER rate be subject to further review, and adjustment, as deemed necessary in subsequent proceedings in which estimated costs are trued-up with actual costs and impacts of the EM&V process are considered.

CONCLUSION

Staff has completed its audit of the applications filed by DP&L in Case Nos. 14-1080-EL-RDR and 16-329-EL-RDR, combined the results in this Staff Letter, and recommends that a total adjustment of $97,780 and $242,599 including any applicable carrying charges, be removed from the EER rate. Staff recommends that the applications be approved, with the adjustments and recommendations detailed above.