BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

CASE NO. 15-1830-EL-AIR
CASE NO. 15-1831-EL-AAM
CASE NO. 15-1832-EL-ATA

SUPPLEMENTAL DIRECT TESTIMONY OF NATHAN C. PARKE

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

BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

SUPPLEMENTAL DIRECT TESTIMONY OF

NATHAN C. PARKE

ON BEHALF OF
THE DAYTON POWER AND LIGHT COMPANY

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Nathan C. Parke. My business address is 1065 Woodman Drive, Dayton, OH 45432.

Q. Did you previously file testimony in these matters?

A. Yes.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to support and explain the following objections of The Dayton Power and Light Company to the Staff Report:

1. To support the Company's objection to the Staff's recommended Revenue Requirement.

2. To support the Company's objection to the Staff 's recommended adjustment to Rate Case Expense for the exclusion of costs related to DP&L's Standard Service Offer ("SSO") case (Case No. 16-0395-EL-SSO).

3. To support the Company's objection to the Staff's recommended exclusion of distribution rate case expenses when the description of the work was redacted to protect the attorney-client privilege and/or work product.

4. To support the Company's objection to the Staff's recommended amortization period for rate case expenses.

5. To support the Company's objection to the Staff's recommended Cash Working Capital that results from Staff's other recommendations.

6. To support the Company's objection to the Staff's recommended adjustment to DP&L's proposed rate design.

II. REVENUE REQUIREMENTS

Q. Please explain DP&L Objection No. 1 to the Staff Report regarding revenue requirements.

A. DP&L objects to the Staff's recommended revenue requirement, because DP&L objects to the various adjustments that Staff proposed, which are fully explained in more detail below and by other Company witnesses.

III. CASE EXPENSES

A. SSO Case Expense

Q. Please explain DP&L Objection No. 31 to the Staff Report regarding SSO case expense.

A. DP&L objects to the Staff's recommendation that SSO case expenses be denied because Staff did not provide a specific reason or explanation for the exclusion of SSO related case expense. The Staff Report (p. 15) says only that "Staff determined these costs are inappropriate for ratemaking purposes." However, these costs were incurred as a direct result of DP&L's compliance with ORC § 4928.141.

Q. Why should SSO case expenses be recoverable?

A. Expenses for the SSO case should be recoverable because they were incurred to satisfy the statutory requirement that DP&L provide all of its jurisdictional customers with a standard service offer. In order to do so, DP&L is also required by statute to file an SSO case, and its prudently-incurred expenses related to that case should be recovered.

Q. Has Staff commented on the recovery of SSO case expenses in other cases?

A. Yes. In DP&L's previous SSO case, 12-426-EL-SSO, DP&L requested recovery of its SSO case expenses. In that case, Staff filed comments on April 27, 2012 stating (p. 13) that "Regarding the inclusion of case expense, Staff believes that the proper context for consideration of these costs would be a distribution rate case."

B. <u>Distribution Rate Case Expenses</u>

Q. Please explain DP&L Objection No. 32 to the Staff Report regarding distribution rate case expenses.

A. Staff recommends (p. 15) that DP&L recover only $417,765 annually for the distribution rate case expenses that DP&L incurred in this case before June 1, 2016. Staff also recommends that DP&L submit a late-filed exhibit for costs incurred after that date. However, Staff does not explain in the Staff Report the reason for its deduction of $304,849, reflecting the amount of certain expenses that DP&L prudently incurred to pay outside counsel for work related to this case. The description of that work performed by outside counsel was redacted from the invoices provided to Staff to protect information that is protected by the attorney-client privilege and the work product doctrine.

DP&L should be permitted to recover those expenses because they were reasonably and prudently incurred to present this rate case.

Q. Why were some of the descriptions of outside counsel's work redacted from invoices provided to Staff?

A. I understand that communications between DP&L employees and outside counsel are protected by the attorney-client privilege. I also understand that work performed by outside counsel is protected by the work product doctrine. It is also my understanding that, unlike any other type of protection, production of privileged or work product information, even pursuant to a confidentiality agreement, would still waive the privilege. Therefore, DP&L instructed outside counsel to redact from its invoices any descriptions that would reveal privileged or work-product information; those redacted invoices are the ones that were provided to Staff.

Q. Can you describe how DP&L reviews invoices from outside counsel?

A. Yes. DP&L reviews every invoice in an unredacted form to ensure that the work performed was reasonable, and that the number of hours billed and particular topics of work were appropriate.

C. <u>Amortization Period</u>

Q. Please explain DP&L Objection No. 33 regarding the Staff's amortization period for recovery of case expenses.

A. Staff recommends (p. 15) that DP&L recover its case expenses over a five-year amortization period. That recommendation is inconsistent with a related recommendation in another section of the Staff Report (p. 9), where Staff recommends that DP&L file another distribution rate case by October 31, 2022. Assuming implementation of the rates approved in this case by October of this year, there are only four years until the next case is filed. DP&L would incur additional expense for that next case before it is filed. Therefore, DP&L would incur expenses well above recovery.

Q. How should the Commission address the amortization period?

A. The amortization period should be reduced; the Commission Staff has recommended 3-year amortization periods for rate case expense in other cases including Duke Case No. 12-1682-EL-AIR; AEP Case No. 11-352-EL-AIR; and all three First Energy companies Case No. 07-551-EL-AIR. Additionally, an Aqua Ohio case, Case No. 16-907-WW-AIR was filed after DP&L's case and Staff recommended a three-year amortization. Alternatively, since the Company anticipates it will file rate cases more frequently than in the past, recovery through a rider that tracks and recovers rate-case expense may also be appropriate.

Q. Has DP&L incurred distribution rate case expenses after the period of time that Staff reviewed those expenses?

A. Yes, Staff's review of DP&L's invoices was limited to costs through the end of May 2016. Since May 31, 2016, DP&L has continued to incur rate case expenses of approximately $1 million through March 31, 2018. Consistent with the Staff recommendation (p. 15), DP&L will seek recovery of those expenses, and additional hearing expenses, by filing a late-filed exhibit after the hearing is completed. These additional rate case expenses are appropriate for recovery.

IV. CASH WORKING CAPITAL

Q. Please explain DP&L Objection No. 23 to the Staff Report regarding cash working capital.

A. DP&L objects to the Staff's recommendation of cash working capital because DP&L objects to the various adjustments that Staff proposed, which are fully explained above and by other Company witnesses. Cash working capital should reflect test-year revenues, expenses, and return. Any adjustments to revenue, expense, or the return has a direct effect on the amount of cash working capital.

Q. How should the Commission adjust cash working capital?

A. The Commission should adjust DP&L's cash working capital to reflect DP&L's objections to the Staff Report.

V. RATE DESIGN

Q. Please explain DP&L Objection No. 39 to the Staff Report regarding rate design.

A. DP&L objects to the Staff's recommendation because there was not sufficient reason or explanation for the modification of the Company's proposed rate design. Additionally, DP&L disagrees with the Staff's statement (p. 36) that "In this case, the Applicant has proposed to shift a significant portion of the fixed demand costs into the customer charge and away from the volumetric charge that currently serves as a proxy for demand charges."

Q. Please explain why DP&L disagrees with that statement.

A. The Staff (p. 30) states that it accepts the Cost of Service Study as a starting point for allocating costs. However, Staff also says (p. 36) that DP&L <u>shifted</u> costs from "demand" to "customer" even though there was no proposed shifting of costs between categories.

Q. Did the Staff provide other reasoning for the modification?

A. Yes, the Staff (p. 36) states that more information is needed by stating "the current rate design methodology be maintained until sufficient customer demand data is available and collected through the smart grid initiative in Ohio. Once the data is collected and evaluated, Staff believes an appropriate rate design should be developed based on this data. This approach would avoid unnecessary cost shifting and result in a rate design that not only incorporates the valuable data collected, but will also be able to incorporate any additional rate design considerations produced from the current Power Forward/smart grid initiatives."

Q. Is more information needed for any changes to the current rate design?

A. No. Although I agree that additional options for rate design will exist consistent with smart grid initiatives, the Commission has already provided guidance on using Straight-Fixed, Variable rate design principles. In Case No. 10-3126-EL-UNC, the PUCO investigated this rate methodology and encouraged electric utilities to propose future rate structures using this methodology. DP&L's proposal uses those principles in a fair and appropriate manner. Better aligning rates with costs was the goal of DP&L's proposal. When advanced meters are installed, it is true that more options for rate design will exist, but that should not limit any change to current rates until that time.

Q. Does Staff's proposal better align costs with cost-causers?

A. No. For example, Residential heating customers will pay more for the same distribution service as Residential non-heating customers, just because they use more kWh, not because they cause more costs. DP&L's proposal better aligns rates to cost causation so that customers can make better economic decisions. Additionally, DP&L's proposal better addresses Staff's stated goals (p. 28-29) that "customers receiving like services should be facing the same charges and provisions. Also, differences in applicable charges should be representative of differences in costs."

Q. Do you have any other concerns with Staff's recommendation on rate design?

A. Yes. Staff acknowledges many important factors to consider in setting rates, but does not address the impact of those factors. The Staff report (p. 29) says, "While it may be viewed as equitable to set rates at costs, if there is a substantial divergence in the current rates, the resulting impact on individual customers may be viewed as unreasonable. While desiring cost-supported charges, Staff considers such items as resulting typical customer billings and resulting revenue increases which would necessarily occur. While it is Staff's position that rate schedules reflect costs, it is also important to consider the continuity associated with current and proposed pricing structures. This may result in movement more closely aligning revenue with costs rather than an absolute match at a particular time period." I agree with Staff's concern; however, the actual impact to a customer's total bill under DP&L's proposal is not a "substantial divergence." Typical bill schedules originally filed show that the actual impact to the low use residential customers is only a few dollars per month. Moreover, since DP&L's rates have dropped significantly since the case was originally filed, many customers, even with an increase from this case, will in fact have bills lower than the current bill at the time of this original filing. DP&L's proposed rate design is appropriate and reasonable and based on sound regulatory principles.

VI. CONCLUSION

Q. Please summarize your testimony.

A. In summary, DP&L's Revenue Requirements were reasonable and appropriate. DP&L should be permitted to recover SSO case expenses and all distribution rate case expenses even if redacted for work product and privileged communications; all of the case expense should be collected through a three-year amortization period or through a tracker. DP&L's cash working capital amount must be updated consistent with DP&L's objections to the Staff Report. The rate design proposed by DP&L was appropriate and fair.

Q. Does this conclude your direct testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Supplemental Direct Testimony of Nathan C. Parke, has been served via electronic mail upon the following counsel of record, this 11th day of April, 2018:

Thomas McNamee
Public Utilities Commission of Ohio
30 East Broad Street, 16th Floor
Columbus, OH 43215-3793
Email:
thomas.mcnamee@ohioattorneygeneral.gov

Attorney for PUCO Staff

Christopher Healey (Counsel of Record)
Terry Etter
Assistant Consumers' Counsel
Office of The Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, OH 43215-4203
Email: christopher.healey@occ.ohio.gov
terry.etter@occ.ohio.gov

Attorneys for Appellant
Office of the Ohio Consumers' Counsel

Frank P. Darr (Counsel of Record)
Matthew R. Pritchard
McNees Wallace & Nurick
21 East State Street, 17th Floor
Columbus, OH 43215
Email: fdarr@mwncmh.com
mpritchard@mwncmh.com

Attorneys for Appellant
Industrial Energy Users - Ohio

Joel E. Sechler
Angela Paul Whitfield
Carpenter Lipps & Leland LLP
280 North High Street, Suite 1300
Columbus, OH 43215
Email: sechler@carpenterlipps.com
paul@carpenterlipps.com

Attorneys for The Kroger Company

David F. Boehm
Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
Email: dboehm@BKLlawfirm.com
mkurtz@BKLlawfirm.com
kboehm@BKLlawfirm.com
jkylercohn@BKLlawfirm.com

Attorneys for Ohio Energy Group

Kimberly W. Bojko (Counsel of Record)
Brian W. Dressel
Carpenter Lipps & Leland LLP
280 North High Street, Suite 1300
Columbus, OH 43215
Email: bojko@carpenterlipps.com
dressel@carpenterlipps.com

Attorneys for The Ohio Manufacturers' Association Energy Group

Madeline Fleisher
Kristin Field
Environmental Law & Policy Center
21 West Broad Street, Suite 500
Columbus, OH 43215
Email: mfleisher@elpc.org
kfield@elpc.org

Robert Kelter (Senior Attorney)
Justin Vickers (Staff Attorney)
Environmental Law & Policy Center
55 East Wacker Drive, Suite 1600
Chicago, IL 60601
Email: rkelter@elpc.org
jvickers@elpc.org

Attorneys for the Environmental Law & Policy Center

Steven D. Lesser
James F. Lang
N. Trevor Alexander
Calfee, Halter & Griswold LLP
41 South High Street
1200 Huntington Center
Columbus, OH 43215
Email: slesser@calfee.com
jlang@calfee.com
talexander@calfee.com

Attorneys for Honda America Mfg., Inc. and The City of Dayton

Stephanie M. Chmiel
Thompson Hine LLP
41 South High Street, Suite 1700
Columbus, OH 43215-6101
Email: stephanie.chmiel@thompsonhine.com

Attorneys for Buckeye Power, Inc.

Trent Dougherty (Counsel of Record)
Miranda Leppla
1145 Chesapeake Avenue, Suite 1
Columbus, OH 43212-3449
Email: tdougherty@theoec.org
mleppla@theoec.org

John Finnigan
Senior Regulatory Attorney
Environmental Defense Fund
128 Winding Brook Lane
Terrace Park, OH 45174
Email: jfinnigan@edf.com

Attorneys for the Ohio Environmental Council and Environmental Defense Fund

Robert Dove
P.O. Box 13442
Columbus, OH 43213
Email: rdove@attorneydove.com

Samantha Williams (Staff Attorney)
Natural Resources Defense Council
20 N. Wacker Drive, Suite 1600
Chicago, IL 60606
Email: swilliams@nrdc.org

Attorneys for Natural Resources Defense Council

Colleen L. Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
P.O. Box 1793
Findlay, OH 45839-1793
Email: cmooney@ohiopartners.org

Attorney for Ohio Partners for Affordable Energy

Derrick Price Williamson
Spilman Thomas & Battle, PLLC
1100 Bent Creek Blvd., Suite 101
Mechanicsburg, PA 17050
Email: dwilliamson@spilmanlaw.com

Carrie M. Harris
Spilman Thomas & Battle, PLLC
310 First Street, Suite 1100
P.O. Box 90
Roanoke, VA 24002-0090
Email: charris@spilmanlaw.com

Lisa M. Hawrot
Spilman Thomas & Battle, PLLC
Century Centre Building
1233 Main Street, Suite 4000
Wheeling, WV 26003
Email: lhawrot@spilmanlaw.com

Steve W. Chriss
Senior Manager, Energy Regulatory Analysis
Greg Tillman
Senior Manager, Energy Regulatory Analysis
Wal-Mart Stores, Inc.
2001 SE 10th Street
Bentonville, AR 72716-0550
Email: stephen.chriss@walmart.com
greg.tillman@walmart.com

Attorneys for Wal-Mart Stores East, LP and Sam's East, Inc.

Matthew W. Warnock
Dylan F. Borchers
Devin D. Parram
Bricker & Eckler LLP
100 South Third Street
Columbus, OH 43215-4291
Email: mwarnock@bricker.com
dborchers@bricker.com
dparram@bricker.com

Attorneys for The Ohio Hospital Association

Joseph Oliker
Michael Nugent
Interstate Gas Supply, Inc.
6100 Emerald Parkway
Dublin, OH 43016
Email: joliker@igsenergy.com
mnugent@igsenergy.com

Attorneys for Interstate Gas Supply, Inc.

Lt Col John C. Degnan
Thomas A. Jernigan
Ebony M. Payton
Federal Executive Agencies (FAE)
139 Barnes Drive, Suite 1
Tyndall AFB FL 32403
Email: John.Degnan@us.af.mil
Thomas.Jernigan.3@us.af.mil
Ebony.Payton.ctr@us.af.mil

Attorney for Federal Executive Agencies

Ellis Jacobs
Advocates for Basic Legal Equality, Inc.
130 West Second Street, Suite 700 East
Dayton, OH 45402
Email: ejacobs@ablelaw.org

Attorney for The Edgemont Neighborhood Coalition

John R. Doll
Matthew T. Crawford
Doll, Jansen & Ford
111 West First Street, Suite 1100
Dayton, OH 45402-1156
Email: jdoll@djflawfirm.com
mcrawford@djflawfirm.com

Attorneys for Utility Workers of America Local 175

Michael J. Settineri (Counsel of Record)
Gretchen L. Petrucci
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P.O. Box 1008
Columbus, Ohio 43216-1008
Email: mjsettineri@vorys.com
glpetrucci@vorys.com

Attorneys for Constellation NewEnergy, Inc.

Mark A. Whitt
Andrew J. Campbell
Rebekah J. Glover
Whitt Sturtevant LLP
The KeyBank Building, Suite 1590
88 East Broad Street
Columbus, OH 43215
Email: whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
glover@whitt-sturtevanat.com

Attorneys for Retail Energy Supply Association

Katie Johnson Treadway
One Energy Enterprises, LLC
12385 Township Rd. 215
Findley, OH 45840
Email: ktreadway@oneenergyllc.com

Attorney for One Energy Enterprises, LLC

/s/ Christopher C. Hollon
Christopher C. Hollon