

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**

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

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

5 **Q. Did you previously file testimony in these matters?**

6 A. Yes.

7 **Q. What is the purpose of this testimony?**

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

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

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

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

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

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

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

5 **II. REVENUE REQUIREMENTS**

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

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

11 **III. CASE EXPENSES**

12 **A. SSO Case Expense**

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

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

20 **Q. Why should SSO case expenses be recoverable?**

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

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

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

10 **B. Distribution Rate Case Expenses**

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

13 A. Staff recommends (p. 15) that DP&L recover only \$417,765 annually for the distribution
14 rate case expenses that DP&L incurred in this case before June 1, 2016. Staff also
15 recommends that DP&L submit a late-filed exhibit for costs incurred after that date.
16 However, Staff does not explain in the Staff Report the reason for its deduction of
17 \$304,849, reflecting the amount of certain expenses that DP&L prudently incurred to pay
18 outside counsel for work related to this case. The description of that work performed by
19 outside counsel was redacted from the invoices provided to Staff to protect information
20 that is protected by the attorney-client privilege and the work product doctrine.

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

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

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

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

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

15 **C. Amortization Period**

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

18 A. Staff recommends (p. 15) that DP&L recover its case expenses over a five-year
19 amortization period. That recommendation is inconsistent with a related
20 recommendation in another section of the Staff Report (p. 9), where Staff recommends
21 that DP&L file another distribution rate case by October 31, 2022. Assuming
22 implementation of the rates approved in this case by October of this year, there are only

1 four years until the next case is filed. DP&L would incur additional expense for that next
2 case before it is filed. Therefore, DP&L would incur expenses well above recovery.

3 **Q. How should the Commission address the amortization period?**

4 A. The amortization period should be reduced; the Commission Staff has recommended 3-
5 year amortization periods for rate case expense in other cases including Duke Case
6 No. 12-1682-EL-AIR; AEP Case No. 11-352-EL-AIR; and all three First Energy
7 companies Case No. 07-551-EL-AIR. Additionally, an Aqua Ohio case, Case No. 16-
8 907-WW-AIR was filed after DP&L's case and Staff recommended a three-year
9 amortization. Alternatively, since the Company anticipates it will file rate cases more
10 frequently than in the past, recovery through a rider that tracks and recovers rate-case
11 expense may also be appropriate.

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

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

20 **IV. CASH WORKING CAPITAL**

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

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

6 **Q. How should the Commission adjust cash working capital?**

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

9 **V. RATE DESIGN**

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

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

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

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

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

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

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

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

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

20 A. No. For example, Residential heating customers will pay more for the same distribution
21 service as Residential non-heating customers, just because they use more kWh, not
22 because they cause more costs. DP&L's proposal better aligns rates to cost causation so

1 that customers can make better economic decisions. Additionally, DP&L's proposal
2 better addresses Staff's stated goals (p. 28-29) that "customers receiving like services
3 should be facing the same charges and provisions. Also, differences in applicable charges
4 should be representative of differences in costs."

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

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

1 **VI. CONCLUSION**

2 **Q. Please summarize your testimony.**

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

9 **Q. Does this conclude your direct testimony?**

10 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:

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