OCC EXHIBIT NO. ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company to Increase its Rates for Electric Distribution	)))	Case No. 15-1830-EL-AIR
In the Matter of the Application of The Dayton Power and Light Company for Accounting Authority.	)))	Case No. 15-1831-EL-AAM
In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs.	)))	Case No. 15-1832-EL-ATA

DIRECT TESTIMONY
OF
MICHAEL L. BROSCH

On Behalf of
The Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215

April 11, 2018

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri.

Q2. BY WHOM ARE YOU EMPLOYED?

A2. I am employed by Utilitech, Inc. ("Utilitech"). Utilitech is a regulatory consulting firm that specializes in issues involved in the regulation of public utilities, which has been retained by the Office of the Ohio Consumers' Counsel ("OCC").

Q3. WHAT IS YOUR CURRENT POSITION WITH UTILITECH AND WHAT ARE YOUR DUTIES?

A3. I am the President of Utilitech. I am responsible for the oversight and conduct of regulatory investigations and reviews of utility filings in which regulated utilities are seeking regulatory approvals for revenue changes, rate and tariff modifications, utility mergers and acquisitions, affiliate transactions and other special projects involving regulated businesses.

Q4. WOULD YOU BRIEFLY STATE YOUR EDUCATIONAL BACKGROUND?

A4. I earned a Bachelor of Business Administration Degree with an emphasis in Accounting from University of Missouri in Kansas City in 1978 and passed the Certified Public Accounting (CPA) examination in that year. I have attended and presented at numerous industry events including training events for utility regulatory agency personnel.

Q5. ***PLEASE OUTLINE YOUR WORK EXPERIENCE.***

A5. Upon graduation, I was employed by the Missouri Public Service Commission as a regulatory auditor for approximately two years and then worked for two different accounting and consulting firms that assisted public utilities and regulatory agencies. In 1985, I joined James R. Dittmer, Inc. as a principal and in 1987 that firm was renamed Utilitech, Inc. I have been continuously involved in professional work and testimony involving regulated public utilities in the electric, gas, telephone, water, sewer, steam heating and transportation businesses for the past 40 years, as more fully explained in Attachment MB-1 to this testimony.

Q6. ***HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?***

A6. Yes. Early in my career I testified in several cases before the Public Utilities Commission of Ohio ("PUCO"), including Dayton Power and Light Case No. 83-777-GA-AIR, where I addressed lead lag studies of cash working capital. A complete listing of my previous formal testimonies is contained in Attachment MB-1.

II. PURPOSE OF TESTIMONY

Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A7. The Dayton Power and Light Company ("DP&L" or the "Utility") filed its Application to Increase its Rates for Electric Distribution and related relief (the "Application") in this docket. The PUCO Staff subsequently issued its report of investigation (the "Staff Report").

My testimony explains several adjustments that should be applied to the Staff Report's recommendations to quantify a just and reasonable jurisdictional revenue requirement that customers should pay for DP&L's regulated electric distribution operations and the needed change in distribution revenues.

I also sponsor Attachment MB-2. This attachment contains revised schedules and workpapers prepared in the format of the Staff Report, to quantify (i) the revenue requirement impact of the adjustments I sponsor, and (ii) the rate of return recommendations of OCC witness Duann. Attachment MB-2 includes only those schedules and workpapers in the Staff Report that are directly or indirectly impacted by adjustments proposed by me and other OCC witnesses.

Q8. **HOW DO THESE ADJUSTMENTS IMPACT THE PUCO STAFF'S RECOMMENDATION FOR A REVENUE INCREASE OF $23.2 MILLION TO $28.1 MILLION?**

A8. Based on the ratemaking adjustments other OCC witnesses and I sponsor in testimony, OCC recommends a revenue requirement reduction of about $0.56 million, which is based on $23.8 million in reductions above and beyond those that the PUCO Staff proposed in its report. The following briefly summarizes OCC's proposed adjustments:

Line		OCC Witness	Revenue Required	Issue Value
1	**Staff Report Revenue Requirement at Lower Bound - As Filed**		$ 23,230,037	
2	Listing of OCC Substantive Changes Made to Staff Report:			
3	Revise ROE to 8.55 Percent	Duann	18,348,599	$ (4,881,438)
4	Revise Federal Income Tax Rate to 21% per Current Law	Brosch	11,426,088	(6,922,511)
5	Amortize Excess Accumulated Deferred Taxes - 35% to 21% reduction	Brosch	5,050,568	(6,375,520)
6	Remove Non-Cash Items Impacts from Lead Lag Study	Brosch	4,287,998	(762,570)
7	Include 100% of Customers' Deposits in Rate Base, with Interest at 3%.	Brosch	2,679,074	(1,608,924)
8	Include 100% of Late Payment (Forfeited Discount) Revenue as Jurisdictional	Brosch	429,932	(2,249,142)
9	DP&L Agreed Reduction for "Inadvertently Included" Expenses	Brosch	$ (560,674)	$ (990,606)
10	**OCC Revenue Requirement Recommendation**		$ (560,674)	(23,790,711)

Q9. ***WHAT INFORMATION DID YOU RELY UPON IN DEVELOPING THE RATEMAKING ADJUSTMENTS AND RECOMMENDATIONS SET FORTH IN YOUR TESTIMONY?***

A9. I relied upon the schedules, workpapers, direct testimony and supplemental information filed by the Utility[1] as well as DP&L responses to interrogatories and requests for production of documents tendered by OCC and the PUCO Staff. I

[1] DP&L Case No. 15-1830-EL-AIR Standard Filing Requirements and Direct Testimony filed November 30, 2015.

also relied upon the Staff Report and associated schedules, workpapers and electronic files. In addition, with respect to the income tax adjustments arising from the Tax Cuts and Jobs Act ("Tax Act"),[2] I relied upon the published text and summary of the Tax Act and the related Conference Report to Accompany H.R. 1.[3] Finally, I relied upon my own professional experience in utility regulation in Ohio and other states, as summarized in Attachment MB-1.

Q10. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE UTILITY'S REVENUE REQUIREMENT AND THE ADJUSTMENTS YOU ARE SPONSORING, WHICH REDUCE THE AMOUNT OF INCREASE CUSTOMERS WOULD PAY TO DP&L.

A10. Based upon the calculations set forth in Attachment MB-2 at Schedule A-1, I recommend that the PUCO reduce DP&L's distribution base rates in order to produce an annual revenue reduction of $560,674. This is shown in the "OCC Proposed" columns on line 15. This revenue reduction results from modifications to the Staff Report to recognize the rate of return recommendation of OCC witness Duann. I sponsor in this testimony and also recommend that the PUCO

[2] The Tax Cuts and Jobs Act is formally referred to as "H.R.1 - An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" and is available in text and summary form at **www.congress.gov/bill/115th-congress/house-bill/1**

[3] Available at: www.congress.gov/congressional-report/115th-congress/house-report/466/1?overview=closed

adopt the following specific additional ratemaking adjustments to the Staff Report that were outlined in the OCC objections to the Staff Report:[4]

- Utilization of the 21% statutory business federal income tax ("FIT") rate that is effective under current tax law to calculate test year current and deferred income tax expenses. (OCC Objections 9 and 16)

- Amortization over five years of the excess federal Accumulated Deferred Income Taxes ("ADIT") that DP&L collected in prior years from customers assuming future payment at a 35% FIT rate, which will now be payable in future years at the newly reduced 21% FIT rate. (OCC Objection 16)

- Reduction in the cash working capital amount included in rate base, to eliminate the PUCO Staff's improper application of a revenue lag to revenues that provide for recovery of non-cash depreciation and deferred income tax expenses and for rate of return, for which a hypothetical and invalid zero payment lead day value has been assumed. (OCC Objection 1)

- The inclusion of 100% of customers' deposits as a reduction to rate base, rather than the lower percentage attributed to such revenues by DP&L and the PUCO Staff, with interest at a three percent annual rate on such deposits included as an operating expense. (OCC Objection 3)

- The inclusion of 100% of late payment charges (aka forfeited discount) revenues as jurisdictional to distribution services, rather than the lower percentage attributed to such revenues by DP&L and the PUCO Staff. (OCC Objection 4)

- Elimination of certain miscellaneous general expenses that DP&L has admitted were inadvertently included in its asserted revenue requirement. (OCC Objection 5)

These adjustments are described sequentially in subsequent sections of this testimony and have been inserted into Attachment MB-2 at the referenced schedules.

[4] Objections to the PUCO Staff's Report of Investigation by the Office of the Ohio Consumers' Counsel (Apr. 11, 2018) (the "OCC Objections").

Finally, I recommend that certain benefits arising from the Tax Act be captured within regulatory liability accounts for future consideration and disposition by the PUCO within Case No. 18-0047-AU-COI. These deferred benefits include (i) amortization of excess ADIT balances associated with accelerated depreciation lives and methods, for which a specific normalization method of accounting is required that has not been quantified at this time, and (ii) the income tax expense savings realized by DP&L shareholders from the reduced 21% FIT rate for the period from January 1 of 2018 until the effective date of new rates in this Case No. 15-1830-EL-AIR.

III. FEDERAL TAX ACT EXPENSE IMPACTS SHOULD BE FLOWED THROUGH TO CUSTOMERS IN THIS CASE THROUGH THE DISTRIBUTION RATES CUSTOMERS PAY TO DP&L.

Q11. HOW DOES THE TAX ACT IMPACT THE LEVEL OF FEDERAL CORPORATE INCOME TAX EXPENSE RECOGNIZED BY ELECTRIC DISTRIBUTION UTILITIES SUCH AS DP&L?

A11. For DP&L and other investor-owned electric utilities, there are several significant and immediate expense savings caused by the Tax Act that must be recognized by regulators to establish just and reasonable rates.

First, the Tax Act directly reduces corporate income tax expenses by reducing the federal business income tax rate from 35% to 21%, effective for tax years after December 31, 2017.[5] Because electric utility revenue requirements approved by regulators generally include federal corporate income tax expense calculated at the previous higher 35% FIT rate in determining utility revenue requirements, a significant reduction in electric utility revenue requirement is caused simply by applying the lower 21% FIT rate throughout the revenue requirement calculation.[6] An FIT rate of 21% should be used in any utility rate case proceeding that will determine new rates to be effective in any period after calendar year 2017, as is true in DP&L's case.

Second, DP&L and other electric utilities have been recording on their books, and collecting from customers, significant amounts of deferred federal income taxes at the previously higher FIT rates that were in effect historically. Deferred income tax accounting, also referred to as "normalization accounting" is required under Generally Accepted Accounting Procedures ("GAAP"),[7] to recognize that accelerated and bonus depreciation and other book/tax deduction timing differences create only temporary tax savings that must be repaid in future years, when the acceleration benefits have been fully realized and book expense become larger than deductible tax expense. The significant

[5] Sec. 13001 of the Tax Act reduces the corporate tax rate from a maximum of 35% under the existing graduated rate structure to a flat 21% rate for tax years beginning after 2017. The Tax Act also specifies requirements for any taxpayer subject to the normalization method of accounting, which applies to DP&L and other electric utilities.

[6] For utilities that operate generating facilities, the Tax Act also eliminates the Domestic Production Activities Deduction ("DPAD") that was available under prior law in determining taxable income. Section 13305 of the Tax Act repeals the deduction for Domestic Production Activities by striking Section 199 of the Internal Revenue Code. However, since vertically integrated electric utilities that generate electricity are impacted by the elimination of this tax deduction, DP&L's distribution service income taxes are not impacted by this lost tax deduction.

[7] Accounting Standards Codification Topic 740 (ASC 740).

FIT rate reduction within the Tax Act creates an accounting requirement to immediately revalue the utility's recorded ADIT balances, in order to restate ADIT to the new, lower 21% FIT liability that now exists. This revaluation is required to recognize that the lower FIT rates will be in effect when the tax deferral benefits underlying recorded ADIT balances turn-around and the related income taxes will become payable. Notably, this revaluation creates significant amounts of "excess" ADIT to be reclassified as regulatory liabilities for eventual return to customers. Excess ADIT balances become a regulatory liability payable to customers because such amounts were "funded" by deferred tax expense collections from DP&L customers in prior years.

Finally, because the Tax Act reduces income tax expense immediately and significantly starting on January 1, 2018, it is appropriate to accumulate the revenue requirement benefit of income tax expense savings from that date, for return to customers. Failure to require an accounting for Tax Act savings commencing January 1, 2018 would allow those benefits to be retained for the sole benefit of utility shareholders as a financial windfall unrelated to any risks or costs being borne by shareholders.

Q12. WHAT ADJUSTMENTS TO THE STAFF REPORT DOES OCC PROPOSE IN ORDER TO RECOGNIZE THE NEW LOWER FEDERAL INCOME TAXES DP&L PAYS?

A12. Attachment MB-2 at Schedule C-3.29 sets forth a side-by-side calculation of test year income tax expense for DP&L's unadjusted jurisdictional operations under the prior tax law, in column C, and under the revised tax law at the reduced 21% FIT rate, in column D. The difference in "Current Federal Income Tax" on page 2 at line 1 plus the difference in "Total Deferred Income Tax" at page 2, line 11, represent the "Total Income Tax Expense" adjustment that is needed to restate to the new statutory FIT rate, prior to consideration of any ratemaking adjustments proposed by DP&L and/or the PUCO Staff within the Staff Report.

Then, because the ratemaking adjustments contained in the Staff Report also create income tax impacts, I have revised Schedule C-3.1 and the underlying WPC-3.1 so that the income tax expense impact of all other ratemaking adjustments are quantified at the current 21% FIT rate, rather than the previous rate that is no longer valid in determining DP&L's revenue requirement.

Q13. DOES THE FEDERAL INCOME TAX RATE REDUCTION UNDER THE TAX ACT ALSO CREATE THE NEED FOR AN ADJUSTMENT TO THE GROSS REVENUE CONVERSION FACTOR APPEARING ON SCHEDULE A-2 OF THE STAFF REPORT?

A13. Yes. The gross revenue conversion factor on Schedule A-2 of the Staff Report is used to "convert" any "Operating Income Deficiency" on line 11 of Schedule A-1 into the corresponding "Revenue Deficiency" on line 15 of Schedule A-1, recognizing that any rate increase approved for DP&L will create newly taxable revenues subject to the Commercial Activities Tax, Municipal Income Tax and Federal Income Tax percentages that are identified on Schedule A-2. The needed adjustment to recognize the Tax Act is restatement of the "FIT Marginal Rate" on line 16 of Schedule A-2 from 35% to 21%.

Q14. THE SECOND FORM OF ADJUSTMENT YOU DESCRIBED AS NEEDED BECAUSE OF THE TAX ACT IS RELATED TO "EXCESS" ADIT BALANCES. WHAT ARE ACCUMULATED DEFERRED INCOME TAXES?

A14. Accumulated Deferred Income Taxes are assets or liabilities that represent the cumulative amounts of additional income taxes that are estimated to become receivable or payable in future periods. These accrue because of differences between book accounting and income tax accounting regarding the timing of revenue or expense recognition. Generally Accepted Accounting Principles (GAAP) require use of an accrual basis accounting method that must be used to recognize revenues, expenses and income within the publicly issued financial statements of public utilities such as DP&L. In contrast, the accounting methods specified to determine revenues and expenses (deductions) and taxable income for income tax purposes are defined by the Internal Revenue Code ("IRC" or "Code"). Differences between GAAP versus Code accounting create what are characterized as book/tax differences. Many of these book/tax differences are temporary because they arise from timing differences, where a specific cost is deductible for tax purposes in a different year than for book purposes. For example, depreciation expense amounts are recorded on a straight-line basis for book accounting. But for income tax accounting purposes, they are instead based upon accelerated lives and methods and may include "bonus" depreciation deductions. Timing differences also occur where the book basis of depreciable property includes different costs than the tax basis or whenever an anticipated expense is recognized on an accrual-basis for book purposes but is deductible in a different year for tax purposes, often when the expense is actually paid in cash by the taxpayer.

Q15. HOW DO ADIT BALANCES AFFECT UTILITY REVENUE REQUIREMENTS?

A15. Utilities are capital intensive businesses that invest continuously in newly constructed and acquired plant assets. These large annual capital investments generate persistently large income tax deductions for bonus/accelerated depreciation and other tax deductions and credits that must be normalized by recording ADIT. The requirement for normalization accounting denies customers any immediate flow-through benefit from such tax deductions and cash savings, because deferred income tax expense accruals are included as part of total income tax expense in the revenue requirement. From a ratemaking perspective, a utility's persistently large credit ADIT balances caused by the deferred payment of recorded deferred income tax expenses represent a significant source of capital to the utility. ADIT balances represent a form of zero-cost capital to the utility created by the income tax savings permitted under tax laws and regulations that are not immediately "flowed through" to customers. These balances would benefit only shareholders unless properly recognized as a rate base reduction. ADIT balances are normally included in rate base as reductions by regulators, so as to properly quantify the *net* amount of investor-supplied capital invested in support of rate base assets.

Q16. HAVE DP&L AND THE PUCO STAFF INCLUDED CERTAIN OF THE UTILITY'S ADIT BALANCES IN THE DETERMINATION OF ITS RATE BASE?

A16. Yes. At Schedule B-6 of the Staff Report, Adjusted Jurisdictional Total Deferred Taxes of negative $183.4 million are included as a subtraction from DP&L's rate base.

Q17. WHAT PORTION OF DP&L'S DATE CERTAIN ADIT BALANCE SHOULD BE RETURNED TO CUSTOMERS AS "EXCESS" DEFERRED TAXES AMORTIZATION CREDITS BECAUSE OF THE FEDERAL INCOME TAX RATE REDUCTION?

A17. Schedule C-3.30 has been added within Attachment MB-2 to estimate the amount that should be returned to customers. Column C contains the three components of ADIT included in rate base by the PUCO Staff at Schedule B-6 of the Staff Report, lines 1, 3 and 7. These are the jurisdictional amounts for ADIT Accounts 190, 282 and 283 in the Staff Report. Then, I subtracted $120.95 million representing the "Plant, Property and Equipment" portion of the Account 282 on line 4 of Schedule C-3.30 and then restated the remaining amounts to a 21% FIT rate in column D of that schedule. The difference between Adjusted Jurisdictional ADIT amounts in column C at 35% FIT rates and the revised amounts in column D at 21% FIT rates is shown in column E as the "Estimated Excess Balance." This totals approximately $25 million and it is treated as "Eligible for Amortization" to customers on line 10.

Q18. WHY HAVE YOU EXCLUDED THE LARGEST "PLANT, PROPERTY & EQUIPMENT" PORTION OF DP&L'S ADIT BALANCES, AT LINE 4 OF SCHEDULE C-3.30, FROM YOUR CALCULATION OF "EXCESS" AMOUNTS TO BE RETURNED TO CUSTOMERS?

A18. The ADIT balances associated with Plant, Property & Equipment are also "excess" because of the lower federal income tax rates that are now effective, but restrictions within the Internal Revenue Code ("IRC") require a slower, ratable return of such excess amounts employing a complex Average Rate Assumption Method of accounting.[8] To avoid inadvertent violation of this IRC restriction, I recommend that only the unrestricted excess ADIT balances be amortized to the credit of DP&L customers at this time. The excess ADIT balances related to Plant, Property & Equipment should be addressed by the PUCO when information becomes available to accurately quantify the ARAM compliant

[8] Section 13001 of the Tax Act reduces the corporate tax rate from a maximum of 35% under the existing graduated rate structure to a flat 21% for tax years beginning after 2017. The Tax Act also specifies requirements for taxpayers subject to the normalization method of accounting, which includes DP&L and other electric utilities. In general, a normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method.

amounts of such annual amortization. The detailed calculations required to determine permissible levels of annual amortization of excess ADIT amounts can only be performed by utility personnel having access to vintage property depreciation records by asset classification and data processing capabilities to perform the required calculations. When the OCC submitted interrogatories to DP&L to solicit this information, DP&L objected and no useful information was provided.[9]

Q19. WHAT IS THE BASIS FOR YOUR PROPOSED FIVE-YEAR AMORTIZATION PERIOD FOR EXCESS ADIT BALANCES AT LINE 12 OF SCHEDULE C-3.30?

A19. I recommend a five-year amortization period to avoid unreasonably delaying the return to customers of ADIT balances collected from them in previous years that are now excessive because of the Tax Act FIT rate reduction. Use of a five-year amortization period is also consistent with the PUCO Staff's recommendation that DP&L file a rate case by October 31, 2022,[10] and the PUCO Staff's proposed five-year amortization of rate case expenses.[11] By the time DP&L's next rate case occurs, the excess ADIT amortization will be concluding.

Additionally, the majority of excess ADIT is subject to restrictive normalization rules that are discussed below and thus is not subject to immediate amortization in my proposed adjustment. The PUCO should use a shorter-term amortization period for

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[9] *See* Attachment MB-9.

[10] Staff Report at page 9.

[11] Id. at page 15.

DP&L's unrestricted excess ADIT balances to provide more of the benefits of the Tax Act to customers sooner rather than later.

Q20. WOULD THE ANNUAL AMORTIZATION AMOUNT FOR EXCESS ADIT BALANCES YOU HAVE CALCULATED ON SCHEDULE C-3.30 FOR DP&L BE CONSIDERED CONSERVATIVE IN AMOUNT, GIVEN YOUR PROPOSED EXCLUSION OF THE RESTRICTED PLANT, PROPERTY AND EQUIPMENT ADIT BALANCES FROM YOUR ESTIMATES?

A20. Yes. Excess ADIT balances related to Plant, Property and Equipment tax versus book depreciation that must comply with normalization accounting requirements are very significant, but cannot be quantified without additional information from DP&L. DP&L should provide the needed ARAM calculations to support permissible annual amortization amounts for excess ADIT balances at date certain that comply with the applicable normalization restrictions. If these calculations become available within this rate case, the adjustment proposed at Schedule C-3.30 should be increased to recognize an annual amount of ARAM-based amortization for Plant, Property, and Equipment related ADIT. If ARAM calculations are not available in the pending rate case, I recommend that the PUCO require DP&L to retain records for all amounts of ARAM amortization of excess ADIT created by the Tax Act and recorded on its books, accumulating such amounts in a regulatory liability account to be returned to customers through the PUCO's pending Case No. 18-47-AU-COI.

Q21. ARE YOU AWARE OF A PENDING RATE CASE BEFORE THE INDIANA UTILITY REGULATORY COMMISSION IN CAUSE NO. 45029 INVOLVING THE INDIANAPOLIS POWER AND LIGHT COMPANY, A SISTER COMPANY OF DP&L UNDER COMMON OWNERSHIP BY AES CORPORATION?

A21. Yes. Indianapolis Power & Light Company ("IPL") has a pending general base rate case in Cause No. 45029.

Q22. ARE TAX ACT ISSUES BEING AFFIRMATIVELY ADDRESSED IN THE PENDING IPL BASE RATE CASE IN INDIANA?

A22. Yes. On February 16, 2018, IPL filed revised testimony and exhibits to account for the effects of the Tax Act within its pending Indiana rate case. I have reviewed the Verified Direct Testimony of Frank J. Salatto, who is employed by AES U.S. Services, LLC, the service company of IPL and DP&L, as its Director, US Tax Reporting. A copy of that testimony in revised form is included in my Attachment MB-3. It is relevant to my discussion of Tax Act impacts upon DP&L in its pending Ohio rate case because of the detailed discussion of parallel issues that I describe herein. For example, at page 11, Mr. Salatto indicates the largest change was to reduce the corporate tax rate from 35% to 21%, which is the same adjustment I have proposed at Schedule C-3.29 in DP&L's pending rate case. Mr. Salatto also describes ADIT accounting and the normalization requirements using ARAM that I have described and then proposes "an amortization period of 25 years as a proxy until the actual ARAM calculation is complete" for IPL's excess ADIT amounts that are subject to these normalization rules.[12] With respect to IPL's excess ADIT amounts that are not subject to normalization rules, Mr. Salatto proposes a ten-year amortization period,[13] compared to the five-year amortization period I have recommended for DP&L. Finally, IPL is requesting that the Indiana Commission authorize it to defer as a regulatory asset or liability the difference between actual excess ADIT amortization and the amount included in rates, to ensure compliance with tax normalization requirements,[14] which is comparable to what I suggest below for DP&L.

Q23. HAVE YOU ADJUSTED THE REVENUE REQUIREMENT IN THIS CASE TO ACCOUNT FOR THE BENEFIT OF INCOME TAX EXPENSE SAVINGS FROM JANUARY 1, 2018 TO THE DATE WHEN NEW UTILITY RATES REFLECT SUCH SAVINGS?

A23. Not at this time. However, such an adjustment should be made when it can be quantified. The calculations within the OCC adjustment appearing at Schedule C-3.29 could be used as a template for such calculations, once the PUCO's final order has established the needed taxable income input values and the effective date of new DP&L distribution rates is known so as to define the number of days within 2018 (divided by 365) that is needed to prorate the unrecognized Tax Act savings from January 1, 2018. The prorated Tax Act savings prior to DP&L rate recognition in 2018 could be amortized over five years, as a further downward adjustment to the revenue requirement.

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[12] Attachment MLB-3, pages 11-15.

[13] *Id*. at 16.

[14] *Id*. at 17.

Q24. SHOULD THE PUCO DEFER ADDRESSING TAX ISSUES TO THE PUCO'S COMMISSION ORDERED INVESTIGATION CASE?

A24. No. The Tax Act adjustments I have proposed are not complex, are conservatively calculated, and are generally consistent with what DP&L's sister utility in Indiana is proposing in IPL's pending rate case. The reduced taxes should be included in the determination of DP&L's revenue requirement so as to not further delay customers' participation in the Tax Act expense savings.

IV. CASH WORKING CAPITAL – NONCASH EXPENSES SHOULD BE EXCLUDED FROM THE RATES CUSTOMERS PAY.

Q25. WHAT IS CASH WORKING CAPITAL AND WHY SHOULD IT BE INCLUDED IN RATE BASE?

A25. Cash working capital is the amount of cash needed by a utility to pay the day-to-day expenses it incurs in providing services to customers for the period during which the utility has expended cash in advance of the collection of revenues. If the timing of a company's cash expenditures, in the aggregate, precede the cash recovery of these expenses from customers, investors must provide cash working capital. On the other hand, customers are considered the providers of cash working capital in instances where their remittances, on the average, precede the utility's cash disbursements for expenses. Whether provided by investors or customers, this investment in cash working capital should be included in rate base to recognize the timing of capital investments.

Q26. WHAT IS THE RELATIONSHIP BETWEEN "WORKING CAPITAL" AND "CASH WORKING CAPITAL"?

A26. Working capital for rate base treatment can include a number of current assets, such as cash working capital, materials and supplies, prepayments, customer advances, and customer deposits. Cash working capital can be thought of as a subset of working capital. Thus, the total net positive or negative working capital amount is normally added to net plant to derive a rate base amount upon which investors are entitled an opportunity to earn a return. Schedule B-5 within the Staff Report calculates a Cash Working Capital allowance at lines 1 through 27 and then adds "M&S" inventories, prepayments and accruals to determine an overall "Working Capital Allowance" at line 36.

Q27. WHAT IS A LEAD-LAG STUDY AND HOW DOES IT MEASURE CASH WORKING CAPITAL?

A27. A lead lag study is a systematic measurement of the timing of cash flows through a utility. A specific measurement is made of the number of days between the provision of utility service to customers and the collection of related cash revenues from customers. A similar measurement of the timing of cash outflows for each cash expense element of cost of service is also undertaken and serves to determine the average number of days during which the utility enjoys the use of vendors' funds between receipt of purchased goods and services and ultimate cash payment for these items. For example, Schedule B-5 shows at line 8 that

DP&L delays the payment by 25.2 expense "lead" days from when employees provide work and are ultimately paid.

If more "lag days" are involved in collecting revenues from customers than a utility can delay payment of expenses ("lead" days), investors must provide cash working capital to bridge the timing gap.

Q28. IN YOUR EXPERT OPINION, SHOULD A LEAD-LAG STUDY OF CASH WORKING CAPITAL INCLUDE NON-CASH ITEMS LIKE DEPRECIATION AND DEFERRED INCOME TAXES?

A28. No. Lead-lag studies of cash working capital are routinely employed in major rate cases in most of the state jurisdictions my firm routinely works in. From my experience in Arizona, Hawaii, Illinois, Kansas, Missouri, New Mexico, Oklahoma, and Texas, I have concluded that depreciation and deferred income taxes are not allowed included in lead-lag studies of cash working capital. In fact, I am not aware of any public utility in any state including these non-cash expenses in lead lag studies as DP&L proposes in this case. This improper approach was either never adopted or was long ago discontinued in the other states I mentioned.

Q29. WHAT IS THE SIGNIFICANCE OF THE DEFINITION OF CASH WORKING CAPITAL THAT IS USED FOR RATEMAKING PURPOSES?

A29. It is necessary to define cash working capital to know what specific working capital investment amounts should be in rate base. The definition of cash working capital leads to the establishment of certain boundaries regarding which utility cash flows are relevant for ratemaking purposes, thereby defining the scope of the lead-lag study.

Q30. WHAT ARE THE MAJOR CASH FLOWS THAT OCCUR WITHIN A TYPICAL PUBLIC UTILITY?

A30. The sources and uses of cash for a utility are observable in its financial statements. Sources of cash for a utility ordinarily include:

1. Jurisdictional and non-jurisdictional operating revenues
2. Proceeds from external financing activities
3. Proceeds from the sale of assets or reduction in inventories/receivables.

In any given period, the sources of cash for a utility tend to approximately equal the uses of cash. Uses of cash include:

4. Payment of operating, maintenance, and interest expenses.
5. Payment of dividends for equity investors
6. Construction of utility plant
7. Repayment or retirement of external debt or equity.

8. Net increases in inventories, cash balances, receivables, etc.

A lead lag study could be employed to evaluate cash working capital requirements associated with any one, several, or all of these cash inflow or cash expenditure components. Regulators concerned with quantification of cash working capital need to decide which of these cash inflows and outflows should be analyzed to determine lead and lag day values, making sure that the measured dollar inflows remain in balances with the measured dollar outflows.

Q31. WHERE DOES DEPRECIATION EXPENSE AND DEFERRED TAX EXPENSE FALL WITHIN THIS LISTING OF CASH SOURCES AND CASH USES?

A31. Depreciation and deferred income tax expenses are included within revenue inflows in item number 1, but are not among the operating, maintenance, and interest expenses payment outflows that must be made (item 4). Thus, cash inflows to recover depreciation and deferred income tax expenses are available for and actually used for other corporate purposes, including payment of dividends (item 5) the construction of utility plant (item 6), repayment of capital obligations (item 7) or for changes in other working capital elements (item 8). This is the fundamental problem arising from DP&L and the PUCO Staff's application of a revenue lag for recovery of non-cash depreciation and deferred tax expenses from customers, while making no effort to measure and quantify the lead day timing of related cash outflows (for construction spending, debt repayment, dividends, etc.).

Q32. WHAT IS DEPRECIATION EXPENSE AND WHY IS IT INCLUDED IN REGULATED COST OF SERVICE?

A32. A definition of depreciation expense is included in the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission ("FERC"):

> "Depreciation", as applied to depreciable electric plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the company is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities.[15]

Depreciation is included in cost of service to recover from customers the costs associated with this consumption of capital assets used in the provision of service. For most electric utilities, depreciation expense provides a primary source of construction funding.

[15] 18 C.F.R. § 101 Definitions at 12.

Q33. WHY ARE DEPRECIATION AND DEFERRED INCOME TAXES CONSIDERED "NON-CASH" EXPENSES?

A33. There is no payment made to any vendor, employee or taxing authority for depreciation expense. The related cash outflows actually occurred in prior periods with the depreciable asset was acquired or constructed by the utility. Similarly, deferred income tax expenses are, by definition, not paid in the current time period to the taxing authority.

Q34. WHAT ISSUES ARISE IF DEPRECIATION EXPENSES ARE INCLUDED IN THE LEAD-LAG STUDY?

A34. DP&L's and the PUCO Staff's inclusion of depreciation expense in the lead-lag study suggests that they are concerned with delayed cash recovery of depreciation expense. But their lead-lag analysis ignores a corresponding positive payment lag (in some amount) for plant construction expenditures at the front-end of the cash flow cycle associated with plant in service. Vendors and employees charging costs to construction projects are not paid immediately when goods and services costs are accrued within construction work orders. Instead, these payments are "lagged" because of the timing of invoicing or timesheet processing and then normal cash remittance intervals. This means that plant expenditures recorded as Plant in Service or electric Construction Work in Progress are included in rate base (or allowed to earn an allowance for funds during construction return) prior to the disbursement of cash. Notably, DP&L's lead-lag study has ignored payment lag days associated with plant construction activities. By ignoring these payment lags while assigning a revenue lag to cash inflows recovering depreciation and deferred taxes from customers, DP&L and the PUCO Staff produce an unacceptable mismatch in the inclusion and measurement of lead-lag cash flow timing.

Q35. THE PUCO STAFF'S CASH WORKING CAPITAL CALCULATION INCLUDES A ZERO LEAD DAY VALUE AND ZERO WORKING CAPITAL REQUIREMENT FOR DEPRECIATION, DEFERRED TAXES, AND RATE OF RETURN. DOES THIS MEAN THAT THESE COST ELEMENTS HAVE NO IMPACT UPON CASH WORKING CAPITAL?

A35. Unfortunately, no. Although it is true that these categories reflect a zero-working capital requirement (as shown on Staff Report Schedule B-5, lines 12, 19, 20, and 23, Column F), the revenues associated with recovery from customers of depreciation, deferred taxes, and rate of return are still included in lines 1 through 3 of the same schedule. Thus, the revenues associated with these noncash expenses are improperly assigned a full revenue lag day value (in column D) that increases Cash Working Capital (in column F).

Q36. DP&L WITNESS FELSENTHAL SPONSORS THE UTILITY'S LEAD LAG STUDY AND PROVIDES WORKPAPERS FOR THE STUDY WITHIN EXHIBIT ADF-1. DO HIS WORKPAPERS REVEAL HOW THE ZERO PAYMENT LEAD DAY VALUE HE ASSIGNED TO DEPRECIATION EXPENSE AND DEFERRED TAXES WAS DETERMINED?

A36. Mr. Felsenthal's workpapers reveal no analysis of depreciation or deferred income tax expenses. Instead, Mr. Felsenthal claims in testimony that "[t]hese expense categories are assigned zero lead days" because recording these expenses results in "balance sheet offsets (Accumulated Depreciation and Accumulated Deferred Taxes) that are deducted from rate base as though fully recovered and available as cost free capital…even though there continues to be a revenue recovery lag for the recorded amount of depreciation and deferred income tax expense included in the revenue requirement that is not received for 42.7 days."[16]

By simply "assigning" a zero-lead day value to these non-cash expenses, Mr. Felsenthal ignores the timing of actual cash outflows making use of depreciation recoveries to fund construction, dividends or other uses of cash flow. Notably, in response to OCC Interrogatory 312, Mr. Felsenthal states that "no studies are analyses were prepared to determine the actual timing of cash flows for depreciation and deferred income taxes." A copy of this response is included within Attachment MLB-4.

[16] Direct Testimony of Alan Felsenthal at 18.

Q37. SHOULD THE REVENUES AND EXPENSES THAT REPRESENT RECOVERY OF DEPRECIATION AND DEFERRED TAXES BE TREATED AS PROPOSED BY MR. FELSENTHAL SIMPLY BECAUSE THESE ACCRUED EXPENSES CREATE BALANCE SHEET RESERVES THAT REDUCE RATE BASE?

A37. No. All of the assets and liabilities within rate base are quantified using an accrual basis of accounting, rather than a cash basis of accounting. There is no justification increasing Cash Working Capital for cash flow timing for only Accumulated Depreciation and Deferred Tax expenses, while not reducing Cash Working Capital for DP&L's ability to delay payments to vendors and contractors to acquire plant assets or delayed payments for materials and supplies inventories that are included in Rate Base without such offsets. If Mr. Felsenthal were to actually study all investment and construction cycle cash flows, including the timing of depreciation and deferred tax recoveries relative to the timing of these related cash outflows upon reinvestment in new plant and other assets, much more work would be required than simply assigning a zero lead-day value to these non-cash expenses.

Q38. IS THERE ANY CONTINUOUS ACCOUNTING FOR MONTHLY CHANGES IN ACCUMULATED DEPRECIATION AND ADIT BALANCES THROUGH THE RATEMAKING PROCESS?

A38. No. The accumulated depreciation and ADIT amounts included in date certain rate base are based upon recorded book balances at a specified date, without regard to whether or not that exact amount of depreciation has been recovered from customers at that date. It is neither practical nor necessary to attempt a cash flow reconciliation of these cumulative balances. However, DP&L's assignment of a zero-payment lead day value to depreciation expense, with a full payment lag assigned to related revenue recoveries, assumes significant under-recoveries of the recorded Date Certain Accumulated Depreciation and ADIT per-book balances.

Q39. DOES A SIMILAR PROBLEM EXIST WITH REGARD TO CASH INFLOWS AND OUTFLOWS FOR "RATE OF RETURN" AT LINES 1 AND 23, RESPECTIVELY, OF STAFF REPORT SCHEDULE B-5?

A39. Yes. According to Mr. Felsenthal, "[a]ll components of return have been given a lead of zero days as both common stockholders and debt holders are each considered as investors and as such, entitled to a daily return on 'investor supplied funds.'"[17] This "gift" of assumed immediate entitlement is unproven and counter-factual.

In reality, debt holders are entitled to only the contractual interest and repayments terms they have agreed upon with the creditor. In Case No. 16-563-EL-AIS, the PUCO approved a term loan for issuance by DP&L that provides for interest that is "due and payable in arrears on each Interest Payment Date" in

[17] *Id*. at 19.

accordance with a Credit Agreement Dated as of August 24, 2016. If reasonably considered in place of Mr. Felsenthal's "given" zero lead day, assumed quarterly interest payments in arrears on this term loan would support an expense lead value of 45.6 days (rather than zero).[18]

With respect to equity investors, the discounted cash flow and other analyses employed to estimate return requirements do not explicitly consider Mr. Felsenthal's assumed entitlement to daily payouts of the return for equity investors. All else held equal, instituting daily equity return payouts in place of the traditional quarterly dividend payments expected by equity investors would suggest a lower return should be allowed to DP&L's equity investors by the PUCO.

Q40. ***HAS DP&L CONDUCTED ANY STUDY OR ANALYSIS TO DETERMINE THE ACTUAL TIMING OF CASH FLOWS FOR THE COMPONENTS OF THE RATE OF RETURN?***

A40. No. Instead, in discovery responses DP&L "states that applying a lead of zero days for all elements of return recognizes that operating income (return) becomes the property of investors when earned (daily)." According to DP&L, "investors

[18] *See* "Report of Sale" documentation filed in Case No. 16-563-EL-AIS on October 5, 2016 at Credit Agreement page 34, paragraph 2.11(c). The "Interest Payment Date" is a defined term at page 15 in relation to defined "Interest Period" intervals that can be either one, three, six or twelve months in duration.

are entitled to a daily return and it does not matter whether they are debt or equity investors."[19]

Q41. WHAT DO YOU RECOMMEND WITH REGARD TO THE LEAD LAG STUDY TREATMENT OF NON-CASH EXPENSES AND RATE OF RETURN?

A41. I recommend that the "recovery" of these elements of cost be removed from revenues at line 1a, within the negative amount that I have inserted into Schedule B-5 at line 1a, so these cash inflows have no Cash Working Capital impact when compared to the zero assigned expense lead days for the related cash outflows at lines 12, 19, 20 and 23.

Q42. ARE YOU AWARE OF OTHER CASES WHERE A STATE REGULATORY COMMISSION ADOPTED YOUR PROPOSED APPROACH OF REMOVING REVENUES THAT ARE SUBJECTED TO THE REVENUE LAG FOR RECOVERY OF NON-CASH EXPENSES?

A42. Yes. The two largest electric utilities in Illinois submit annual filings to adjust delivery service rates pursuant to a calculation template that includes periodically updated lead-lag studies. Total utility operating revenues in Illinois are reduced to exclude depreciation and amortization expense, deferred taxes and ITC, and Return on Equity in the manner I propose, prior to application of a revenue lag

[19] DP&L responses to OCC Interrogatories 313, 314 and 315. *See* Attachment MB-4.

day value to the remaining cash receipts in each year. I have included a copy of filed Commonwealth Edison workpapers and Cash Working Capital calculations to illustrate how this process works in Illinois within Attachment MB-5.

Q43. DOES DP&L WITNESS FELSENTHAL IDENTIFY ANY STATES OUTSIDE OHIO WHERE HE BELIEVES NON-CASH EXPENSES ARE ALLOWED TO INCREASE CASH WORKING CAPITAL?

A43. He does not. However, at page 3 of his testimony, Mr. Felsenthal states, "I have led engagements to perform lead-lag studies for utilities in New Mexico and Illinois."

Q44. IF MR. FELSENTHAL HAD APPLIED ESTABLISHED LEAD LAG STUDY PRINCIPLES FROM THESE TWO STATES TO DP&L'S LEAD LAG STUDY, WOULD NON-CASH ITEMS BE ALLOWED TO INCREASE CASH WORKING CAPITAL INCLUDED IN THE UTILITY'S RATE BASE?

A44. No. As I have explained and demonstrated with Attachment MB-5, Illinois does not include non-cash expenses in the determination of cash working capital for its largest electric utilities. I also included within Attachment MB-5 excerpts of testimony and Schedule E-1 filed by Public Service Company of New Mexico ("PNM") in its most recent rate case. At lines 28, 38 and 42 of PNM's Schedule E-1, neither a Revenue Lag Day nor Lead Days are assigned to "Depreciation and Amortization" Expense, "Return on Rate Base," or "State and Fed Deferred" income tax expense, resulting in no "Cash Working Capital Calc" amounts on subsequent pages for these line items.

V. CUSTOMER DEPOSITS SHOULD BE DEDUCTED FROM RATE BASE.

Q45. WHAT AMOUNT OF CUSTOMER DEPOSITS WAS RECORDED ON THE UTILITY'S BOOKS AT SEPTEMBER 30, 2016, THE DATE CERTAIN IN THIS CASE?

A45. Recorded Customers' Deposits were $36.2 million, as shown in DP&L Schedule C-3.15 and in the Staff Report at Schedule B-6, line 4.

Q46. WHAT PORTION OF DP&L'S TOTAL RECORDED CUSTOMERS' DEPOSITS HAS THE UTILITY AND THE PUCO STAFF INCLUDED AS A REDUCTION TO JURISDICTIONAL DATE CERTAIN RATE BASE?

A46. Only $3.7 million, or approximately ten percent, of total recorded customer deposits are treated as a jurisdictional rate base reduction. According to DP&L's responses to OCC Interrogatories 510 and 669, some of its recorded customer deposits are being treated as non-jurisdictional because they were "provided by non-utility customers" and the "deposits classified to Account 2350003 are collateral submitted by competitive bid auction winners and competitive retail electric service providers offering electric choice." According to DP&L in these responses, "none of the deposits classified to Account 2350003 were available to support the distribution service." According to DP&L's response to Staff Data Request 16, about $21.8 million of the total deposit balance of

$36.2 million on DP&L's books is contained within Account 2350003 and represents security collateral received from entities other than distribution customers.[20]

Q47. HAS DP&L PROVIDED ANY REASON WHY THESE DEPOSITS RECEIVED FROM NON-UTILITY CUSTOMERS THAT ARE BEING HELD BY DP&L CANNOT BE CONSIDERED AS FUNDS AVAILABLE TO SUPPORT DISTRIBUTION RATE BASE INVESTMENTS?

A47. No. In fact, in response to OCC Interrogatory 670, the Utility stated that "it does not contend that it has recognized and accounted for any customer deposits in the determination of its revenue requirement or its net costs associated with any power supply or transmission related services or in the administration of any of its tariff riders or rate schedules that pertain to other than distribution services." Thus, DP&L has offered no reason why the full amount of its recorded customer deposits, which have not been recognized in any other pricing or regulatory calculation, should not be treated as fully jurisdictional in determining distribution service rate base.

[20] See Attachment MB-6 for copies of DP&L Responses to OCC Interrogatories 510, 669, 670, OCC Request for Production 196 documents and Staff DR 16.

Q48. AFTER ATTRIBUTING ABOUT $21.8 MILLION OF ITS RECORDED DEPOSITS TO COLLATERAL ARRANGEMENTS, WHY IS ONLY $3.7 MILLION OF THE REMAINING $8.8 MILLION IN PER-BOOK DEPOSITS INCLUDED IN RATE BASE AT SCHEDULE B-6, LINE 4?

A48. After excluding all of the collateral arrangement deposits it holds, DP&L also performed a further allocation of the remaining deposit balance, using a revenue-based ratio of distribution charge revenues to total revenues, effectively attributing some of the deposits to its various cost recovery riders, transmission services, and competitive bid rate revenues.[21]

Q49. DO YOU AGREE WITH DP&L'S TREATMENT OF COLLATERAL ARRANGEMENT DEPOSITS AS NON-JURISDICTIONAL AND ITS FURTHER ALLOCATION OF THE REMAINING DEPOSITS ON A RELATIVE REVENUE BASIS AMONG BASE AND RIDER REVENUES?

A49. No. The full amount of DP&L's recorded customers deposits balance at date certain should be treated as jurisdictional in the absence of a showing by DP&L that the deposits it holds for these other service arrangements has been accounted for in the administration of other tariff riders or non-distribution service rate schedules. In Attachment MB-2, I have revised the treatment of Customers' Deposits on Schedule B-6 to reflect them as

[21] See DPL-AIR-0009221 provided in response to OCC RPD 196 for supporting calculations for the "Customer Deposits Allocator" shown in Staff Report Schedule B-6 at line 4, column E. *See* Attachment MB-6.

100% jurisdictional. A corresponding revision is made at Schedule C-3.15 to provide for interest on this larger amount of customers' deposits being included in rate base.[22]

VI. DELAYED PAYMENT (FORFEITED DISCOUNT) REVENUES SHOULD BE USED TO REDUCE RATES TO CUSTOMERS.

Q50. WHAT ARE FORFEITED DISCOUNT REVENUES?

A50. DP&L's tariff at Original Sheet No. D15 provides for a Delayed Payment Charge billed to customers of 1.5% monthly on the customer's unpaid balance as of the due date shown on the previous billing. The revenues produced by this charge are recorded as "Forfeited Discounts" and totaled $3.1 million for the test year.

Q51. DID DP&L AND THE PUCO STAFF TREAT ALL TEST YEAR FORFEITED DISCOUNT REVENUES AS JURISDICTIONAL IN DETERMINING THE DP&L REVENUE REQUIREMENT?

A51. No. DP&L Schedule C-2.1 shows that only 27.92% or $0.87 million of these revenues are treated as jurisdictional. The calculation of DP&L's proposed allocation factor was provided in response to OCC Interrogatory 126 and in Request for Production 42, Attachment 1. As in the case of customer deposits described above, DP&L has applied a relative revenue-based allocation factor to attribute most of its Forfeited Discount

[22] The SSO supply agreement documentation referenced in OCC Interrogatory 669 that is available on the Company's web site indicates that, "The Dayton Power and Light Company will pay simple interest calculated at the lower of the Interest Index or six percent (6%) per annum on all cash held by The Dayton Power and Light Company pursuant to this Agreement" and the "Interest Index" term is defined as an average "Federal Funds" rate that was less than 2 percent at the time this testimony was prepared.

revenue to its various riders and competitive bid rate services, leaving only the portion attributed by DP&L to base distribution charges as jurisdictional for ratemaking purposes.

Q52. HAS DP&L ATTRIBUTED ANY OF ITS FORFEITED DISCOUNT REVENUES TO REDUCE RECOVERABLE COSTS RECONCILED THROUGH ITS TARIFF RIDERS AND OTHER BILLED CHARGES, IN DETERMINING NET ELIGIBLE RECOVERABLE COSTS THROUGH THOSE MECHANISMS?

A52. No. According to DP&L's response to OCC Interrogatory 516, there is no reduction of eligible recoverable costs to account for forfeited discount revenues in administering any of the riders and charges listed in its allocation calculations, even though DP&L is treating Forfeited Discount allocable to those rider/charge revenues as non-jurisdictional to distribution services. Similarly, in response to OCC Interrogatory 127, DP&L stated that no rate applications submitted to the FERC included any assignment of Forfeited Discount revenues to a regulatory jurisdiction other than PUCO regulated distribution services. I have included copies of DP&L responses to OCC Interrogatories 126, 127, and 516 and to RPD-42 within Attachment MB-7.

Q53. WHAT DO YOU PROPOSE WITH RESPECT TO FORFEITED DISCOUNT REVENUES?

A53. 100% of DP&L's test year Forfeited Discount revenues should be treated as jurisdictional for ratemaking purposes. To achieve this result, I have inserted Schedule C-3.31 into

Attachment MB-2, increasing test-year revenues at present rate levels by approximately $2.2 million.

VII. CUSTOMER RATES SHOULD BE LOWERED BY AGREED EXPENSE REDUCTIONS.

Q54. WHAT IS THE PURPOSE OF THE FINAL ADJUSTMENT YOU SPONSOR THAT IS SET FORTH AT SCHEDULE C-3.32 WITHIN ATTACHMENT MB-2?

A54. As part of its review of DP&L's filing of Schedule C-2.1 and Schedule C-7, OCC requested a breakdown of monthly Account 930.2 Miscellaneous General Expenses by payee for the test year, so as to more carefully examine the $4.8 million of expenses included in that account. In responding to OCC Interrogatory 497, DP&L provided detailed supporting information for some but not all of these charges with a two-page confidential attachment. The narrative response stated: "Please note that the total provided on this attachment has been reduced by $829,429 to account for items inadvertently included in the test year. Eliminating these items results in a $329,774 reduction to the revenue requirement. DP&L agrees to this reduction." I have included a copy of this response, excluding the confidential attachment, within Attachment MB-8.

The test year in this case contained four months of actual data and eight months of forecasted data. The OCC adjustment proposed at Attachment MB-2, Schedule C-3.32 expands DP&L's conceded adjustment by a factor of three, assuming that the same actual expenses it had "inadvertently included" in the actual months of the test year were indicative of similar included forecasted amounts in the budgeted months of the test year. The jurisdictional allocation factor applied within this adjustment is the same as used by DP&L for other test year expenses in Account 930.2.

Q55. DOES THIS CONCLUDE YOUR TESTIMONY?

A55. Yes. However, I reserve the right to submit supplemental testimony as new information becomes available or in response to positions taken by other parties.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Michael L. Brosch on behalf of the Office of the Ohio Consumers' Counsel* has been served upon those persons listed below via electronic service this 11th day of April 2018.

/s/ Christopher Healey
Christopher Healey
Counsel of Record

SERVICE LIST

Thomas.mcnamee@ohioattorneygeneral.gov
Bojko@carpenterlipps.com
ORourke@carpenterlipps.com
ghiloni@carpenterlipps.com
sechler@carpenterlipps.com
dboehm@BKLlawfirm.com
mkurtz@BKLlawfirm.com
jkylercohn@BKLlawfirm.com
sam@mwncmh.com
fdarr@mwncmh.com
mpritchard@mwncmh.com
jlang@calfee.com
talexander@calfee.com
slesser@calfee.com
jvickers@elpc.org
tdougherty@theOEC.org
mleppla@theOEC.org
jfinnigan@edf.org
swilliams@nrdc.org
rdove@attorneydove.com
kfield@elpc.org
mfleisher@elpc.org

Attorney Examiners:
gregory.price@puc.state.oh.us
patricia.schabo@puc.state.oh.us

Michael.schuler@aes.com
djireland@ficlaw.com
jsharkey@ficlaw.com
Kurt.Helfrich@ThompsonHine.com
Stephanie.Chmiel@ThompsonHine.com
Michael.Austin@ThompsonHine.com
mfleisher@elpc.org
dparram@taftlaw.com
thomas.jernigan.3@us.af.mil
cmooney@ohiopartners.org
jschlesinger@kfwlaw.com
dborchers@bricker.com
mwarnock@bricker.com
ejacobs@ablelaw.org
joliker@igsenergy.com
lhawrot@spilmanlaw.com
dwilliamson@spilmanlaw.com
charris@spilmanlaw.com
mjsettineri@vorys.com
glpetrucci@vorys.com
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
glover@whitt-sturtevant.com
jdoll@djflawfirm.com
mcrawford@gjflawfirm.com

Michael L. Brosch
Utilitech, Inc. – President
Bachelor of Business Administration (Accounting)
University of Missouri-Kansas City (1978)
Certified Public Accountant Examination (1979)

GENERAL

Mr. Brosch serves as the director of regulatory projects for the firm and is responsible for the planning, supervision and conduct of firm engagements. His academic background is in business administration and accounting and he holds CPA certificates in Kansas and Missouri. Expertise is concentrated within regulatory policy, financial and accounting areas with an emphasis in revenue requirements, business reorganization, cost allocations, rate design and alternative regulation.

EXPERIENCE

Mr. Brosch has supervised and conducted the preparation of rate case exhibits and testimony in support of revenue requirements and regulatory policy issues involving more than 100 electric, gas, telephone, water, and sewer proceeding across the United States. Responsible for virtually all facets of revenue requirement determination, cost of service allocations and tariff implementation in addition to involvement in numerous utility merger, alternative regulation and other special project investigations.

Industry restructuring analysis for gas utility rate unbundling, electric deregulation, competitive bidding and strategic planning, with testimony on regulatory processes, asset identification and classification, revenue requirement and unbundled rate designs and class cost of service studies.

Analyzed and presented testimony regarding income tax related issues within ratemaking proceedings involving interpretation of relevant IRS code provisions and regulatory restrictions.

Has substantial experience in the application of lead-lag study concepts and methodologies in determination of working capital investment to be included in rate base.

Conducted alternative regulation analyses for clients in Arizona, California, Hawaii, Illinois, Texas and Oklahoma, focused upon challenges introduced by cost-based regulation, incentive effects available through alternative regulation and balancing of risks, opportunities and benefits among stakeholders. Analyses included targeted rate adjustment clauses, regulatory deferral accounting mechanisms, revenue/price cap arrangements and formula rate adjustment programs, including advisory work in the design of such plans as well as analyses and administration of alternative regulation plans after implementation.

Mr. Brosch managed the detailed regulatory review of utility mergers and acquisitions, diversification studies and holding company formation issues in energy and telecommunications transactions in multiple states. Sponsored testimony regarding merger synergies, merger accounting and tax implications, regulatory planning and price path strategies. Traditional horizontal utility mergers as well as leveraged buyouts of utility properties by private equity investors have been addressed in several states.

Analyzed and developed alternative regulation plans for electric and gas utilities in multiple states. Participated in the development, implementation and administration of decoupling and formula rate adjustment mechanisms. Advised and assisted in legislative advocacy regarding electric and gas infrastructure rate adjustment mechanisms.

WORK HISTORY

1985 - Present	**President** - Utilitech, Inc. Regulatory project management and advisory/consulting services on behalf of industry and governmental agencies.
1983 - 1985:	**Project manager** - Lubow McKay Stevens and Lewis. Responsible for supervision and conduct of utility regulatory projects on behalf of industry and regulatory agency clients.
1982 - 1983:	**Regulatory consultant** - Troupe Kehoe Whiteaker and Kent. Responsible for management of rate case activities involving analysis of utility operations and results, preparation of expert testimony and exhibits, and issue development including research and legal briefs. Also involved in numerous special projects including financial analysis and utility systems planning. Taught firm's professional education course on "utility income taxation - ratemaking and accounting considerations" in 1982.
1978 - 1982:	**Senior Regulatory Accountant** - Missouri Public Service Commission. Supervised and conducted rate case investigations of utilities subject to PSC jurisdiction in response to applications for tariff changes. Responsibilities included development of staff policy on ratemaking issues, planning and evaluating work of outside consultants, and the production of comprehensive testimony and exhibits in support of rate case positions taken.

OTHER QUALIFICATIONS

Bachelor of Business Administration - Accounting, 1978
University of Missouri - Kansas City

Member	American Institute of Certified Public Accountants Missouri Society of Certified Public Accountants Kansas Society of Certified Public Accountants
Attended	Iowa State Regulatory Conference 1981, 1985 Regulated Industries Symposium 1979, 1980 Michigan State Regulatory Conference 1981 United States Telephone Association Round Table 1984 NARUC/NASUCA Annual Meeting 1988, Speaker NARUC/NASUCA Annual Meeting 2000, Speaker NASUCA Regional Consumer Protection Meeting 2007, Speaker
Instructor	INFOCAST Ratemaking Courses Arizona Staff Training Hawaii Staff Training

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Overall Financial Summary
For the Twelve Months Ended May 31, 2016

Line		Input Schedules	OCC Witness	Revenue Required	Issue Value
1	**Staff Report Revenue Requirement at Lower Bound - As Filed**			$ 23,230,037	
2	Listing of OCC Substantive Changes Made to Staff Report:				
3	Revise ROE to 8.55 Percent	D-1	Duann	18,348,599	$ (4,881,438)
4	Revise Federal Income Tax Rate to 21% per Current Law	C-3.29, WPC-3.1, A-2	Brosch	11,426,088	(6,922,511)
5	Amortize Excess Accumulated Deferred Taxes - 35% to 21% reduction	C-3.30	Brosch	5,050,568	(6,375,520)
6	Remove Non-Cash Items Impacts from Lead Lag Study	B-5	Brosch	4,287,998	(762,570)
7	Include 100% of Customers' Deposits in Rate Base, with Interest at 3%.	B-6, C-3.15	Brosch	2,679,074	(1,608,924)
8	Include 100% of Late Payment (Forfeited Discount) Revenue as Jurisdictional	C-3.31	Brosch	429,932	(2,249,142)
9	DP&L Agreed Reduction for "Inadvertently Included" Expenses	C-3.32	Brosch	$ (560,674)	$ (990,606)
10	**OCC Revenue Requirement Recommendation**			$ (560,674)	(23,790,711)

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Overall Financial Summary
For the Twelve Months Ended May 31, 2016

Work Paper Reference No(s).: See Below

Schedule A-1
Page 1 of 1

Line No.	Description	Supporting Schedule Reference	Company Proposed Test Year	OCC Proposed Lower Bound	OCC Proposed Upper Bound
1	Rate Base as of Date Certain	B-1	$ 683,779,476	$ 600,873,346	$ 600,873,346
2					
3	Current Operating Income	C-1	11,305,453	41,539,448	41,539,448
4					
5	Earned Rate of Return (Line 3 / Line 1)		1.65%	6.91%	6.91%
6					
7	Requested Rate of Return	D-1	7.86%	6.84%	6.84%
8					
9	Required Operating Income (Line 1 * Line 7)		53,745,067	41,099,737	41,099,737
10					
11	Operating Income Deficiency (Line 9 - Line 3)		42,439,614	(439,711)	(439,711)
12					
13	Gross Revenue Conversion Factor	A-2	1.549772	1.275097	1.275097
14					
15	Revenue Deficiency (Line 11 * Line 13)		65,771,725	(560,674)	(560,674)
16					
17	Revenue Increase Recommended	E-4	65,750,232	(560,674)	(560,674)
18					
19	Adjusted Operating Revenues	C-1	217,400,884	221,906,328	221,906,328
20					
21	Revenue Requirements (Line 15 + Line 19)		$ 283,172,609	$ 221,345,654	$ 221,345,654
22					
23	Increase Over Current Revenue (Line 17 / Line 19)		30.24%	-0.25%	-0.25%

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Computation of Gross Revenue Conversion Factor
For the Twelve Months Ended May 31, 2016

Schedule A-2
Page 1 of 1

Work Paper Reference No(s).: None

Line No.	Description	% of Incremental Gross Revenues
1	Operating Revenues	100.0000%
2		
3	Less: Commercial Activities Tax (CAT)	0.2600%
4		
5	Percentage of Income After CAT	99.7400%
6		
7	Less: Ohio Municipal Income Tax Return	
8	Municipal Income Tax Due	$390,875
9	Federal Taxable Income	$83,432,860
10	Effective Ohio Municipal Tax Rate	0.4685%
11	Effective Ohio Municipal Tax Rate as a Percent of Line 15	0.4673%
12		
13	Percentage of Income Before Federal Income Tax	99.2727%
14		
15	Less: Federal Income Tax (FIT)	
16	FIT Marginal Rate	21.0000%
17	Effective Marginal Rate	20.8473%
18		
19	Net Operating Income Percentage	78.4254%
20		
21	Gross Revenue Conversion Factor	1.275097

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Jurisdictional Rate Base Summary
As of September 30, 2015

Schedule B-1
Page 1 of 1

Work Paper Reference No(s).: See Below

Line No.	Description	Supporting Schedule Reference	Company Proposed Amount	OCC Proposed Amount
(A)	(B)	(C)	(D)	(E)
1	Plant in Service			
2	Distribution	B-2	$ 1,541,351,600	$ 1,494,435,485
3	General	B-2	33,554,075	9,639,952
4	Other: Intangible	B-2	37,730,493	25,305,660
5	Total Plant In Service		1,612,636,168	1,529,381,097
6				
7	Reserve for Accumulated Depreciation			
8	Distribution	B-3	733,158,899	695,057,490
9	General	B-3	18,660,611	(4,970,577)
10	Other: Intangible	B-3	24,060,116	11,715,900
11	Total Reserve for Accumulated Depreciation		775,879,626	701,802,813
12				
13	Net Plant In Service		836,756,542	827,578,284
14				
15	Construction Work In Progress 75% Complete	B-4	-	-
16				
17	Working Capital Allowance	B-5	5,735,724	(5,939,356)
18				
19	Customers' Advances for Construction	B-6	(466,036)	(466,036)
20				
21	Other Rate Base Items	B-6	(158,246,754)	(220,299,547)
22				
23	Jurisdictional Rate Base		$ 683,779,476	$ 600,873,346

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Working Capital Allowance
For the Twelve Months Ended May 31, 2016

Schedule B-5
Page 1 of 1

Work Paper Reference No(s).: Staff WPB-5

Line No.	Description	Adjusted Revenue and Expenses	Revenue Lag / Expense Lead Days	Weighted Dollar Days	Working Capital Requirement
(A)	(B)	(C)	(D)	(E) = (C) * (D)	(F) = (E) / 365 days
	Revenues				
1	Base Distribution Revenues	$ 211,789,314	42.7	$ 9,043,403,708	$ 24,776,449
1a	*Less: Revenues for Non-cash Expenses & Return*	*$ (79,916,796)*	*43.7*	*$ (3,492,363,996)*	$ (9,568,121)
2	Base Distribution Revenues (ODSA Collection)	7,877,520	54.5	429,324,840	1,176,232
3	USF Rider Revenues	27,173,152	42.7	1,160,293,590	3,178,887
4	Total Revenues	166,923,190			19,563,447
5					
6	Expenses				
7	Operating Expenses				
8	Payroll and Related Expenses	17,482,835	25.2	440,567,442	1,207,034
9	Payroll Taxes	2,186,835	25.2	55,108,244	150,981
10	Allocated Expenses	9,064,789	(4.0)	(36,168,507)	(99,092)
11	Insurance	862,814	(159.7)	(137,791,448)	(377,511)
12	Depreciation	47,435,264	0.0	-	-
13	Taxes Other Than Income Taxes	49,473,076	179.1	8,860,627,912	24,275,693
14	Other Operating Expenses	55,084,233	35.2	1,938,964,988	5,312,233
15	Total Operating Expenses	181,589,846			30,469,338
16					
17	Income Taxes				
18	Current Income Tax Expense	2,922,609	37.0	108,136,519	296,264
19	Deferred Income Tax Expense	2,494,959	0.0	-	-
20	Investment Tax Credit	(169,278)	0.0	-	-
21	Total Income Taxes	5,248,290			296,264
22					
23	Rate of Return	30,155,851	0.0	-	-
24					
25	USF Rider Remittances	27,173,152	30.9	839,650,381	2,300,412
26					
27	Total Expenses with Measured Lead Days	$ 164,250,342			$ 33,066,014
28					
29	M&S Held for Normal Operations less allowance for new construction				8,591,365
30	Prepayments				4,639,244
31	Accruals				(5,657,673)
32	WPAFB				(9,725)
33					
34				Working Capital Allowance	$ (5,939,356)
35					
36				Working Capital Allowance to be Included In Rate Base	$ (5,939,356)

(C) Staff's Schedules C-2 thru C-3.27
(D) Applicant's Lead Lag Study as Adjusted by Staff, see text

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Other Rate Base Items Summary
As of September 30, 2015

Schedule B-6
Page 1 of 1

Work Paper Reference No(s).: Staff WPB-6a

Line No.	Acct. No.	Description	Total Company	Allocation %	Allocation Code	Allocated Total	Adjustments	Adjusted Jurisdictional
(A)	(B)	(C)	(D)	(E)	(F)	(F) = (D) * (E)	(G)	(H) = (F) + (G)
1	252	Customers' Advances for Construction	$ (466,036)	100.00%	ALLDIST	$ (466,036)	$ -	$ (466,036)
2								
3		Other Rate Base Items						
4	235	Customers' Deposits	(36,200,945)	100.00%	DIRECT	(36,200,945)	-	(36,200,945)
5								
6	255	Investment Tax Credits:						
7		Pre-1971 3% Credit	-			-	-	-
8		1971 4% Credit	-			-	-	-
9		1975 6% Credit	-			-	-	-
10		1981 10% Credit on Recovery of Property	-			-	-	-
11		ITC Tax Benefits Sold	-			-	-	-
12		Other (Specify and List Separately)	-			-	-	-
13		Total Investment tax Credits	(20,578,112)	3.14%	DIRECT	(646,120)	-	(646,120)
14								
15								
16		Deferred Income Taxes:						
17	190	Debits	19,736,594	41.59%	DIRECT	8,207,918	(7,500,837)	707,081
18	281	Accelerated Amortization Property	-	0.00%	NONDIST	-	-	-
19	282	Utility Property	(615,410,717)	29.79%	DIRECT	(183,301,658)	270,925	(183,030,733)
20	283	Credits	(32,496,796)	60.39%	DIRECT	(19,624,827)	18,495,997	(1,128,830)
21		Other (Specify and List Separately)	-	0.00%	DIRECT	-	-	-
22	(a)	Total Deferred Income Taxes	(628,170,919)			(194,718,567)	11,266,085	(183,452,482)
23								
24		Other (Specify and List Separately):						
25	(b)	Net Prepaid Pension Asset	74,046,462	55.18%	DIRECT	40,861,111	(40,861,111)	-
26								
27		Total Other Rate Base Items	$ (610,903,514)			$ (190,704,521)	$ (29,595,026)	$ (220,299,547)

(a) See Staff WPB-6a
(b) Staff adjustment. Refer to text.

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Jurisdictional Pro Forma Net Operating Income Statement
For the Twelve Months Ended May 31, 2016

Schedule C-1
Page 1 of 1

Work Paper Reference No(s).: None

Line No.	Description	OCC Adjusted Revenue & Expenses	OCC Proposed Increase	Pro Forma Revenue & Expenses
		(A)	(B)	(C) = (A) + (B)
1	Operating Revenues	$ 221,906,328	$ (560,674)	$ 221,345,654
2				
3	Operating Expenses			
4	Operation & Maintenance	82,125,438	-	82,125,438
5	Depreciation and Amortization Expenses	47,435,264	-	47,435,264
6	Taxes - Other Than Income Taxes	52,016,521	(1,458)	52,015,063
7	Operating Expenses Before Income Taxes	181,577,223	(1,458)	181,575,765
8				
9	NOI before Income Taxes	40,329,105	(559,216)	39,769,889
10				
11	State Income Taxes	95,503	(2,613)	92,890
12	Federal Income Taxes	(1,305,846)	(116,581)	(1,422,427)
13	Total Income Taxes	(1,210,343)	(119,195)	(1,329,537)
14				
15	Total Operating Expenses	180,366,881	(120,653)	180,246,228
16				
17	Net Operating Income	$ 41,539,448	$ (440,021)	$ 41,099,426
18				
19	Rate Base	$ 600,873,346		$ 600,873,346
20				
21	Rate of Return	6.91%		6.84%

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Adjusted Test Year Jurisdictional Operating Income
For the Twelve Months Ended May 31, 2016

Schedule C-2
Page 1 of 2

Work Paper Reference No(s).: Applicant's C-2.1 & Staff's C-3

Line No.	Description	Unadjusted Revenue & Expenses	Adjustments	Adjusted Revenue & Expenses
		(A)	(B)	(C) = (A) + (B)
1	OPERATING REVENUES			
2	Distribution Revenues	$ 347,286,520	$ (132,733,371)	$ 214,553,149
3	Other Retail Revenues	-	$ -	-
4	Other Operating Revenues	11,460,710	$ (4,107,531)	7,353,179
5	Total Operating Revenues	358,747,230	(136,840,902)	221,906,328
6				
7	OPERATING EXPENSES			
8	Operation and Maintenance Expenses			
9	Production Expense	-	-	-
10	Transmission Expense	-	-	-
11	Distribution Expense	50,224,905	(13,571,214)	36,653,691
12	Customer Accounts Expense	45,587,070	(29,867,585)	15,719,485
13	Customer Service & Information Expense	23,593,776	(23,587,953)	5,823
14	Administrative & General Expense	45,373,699	(15,627,259)	29,746,440
15	Total Operating and Maintenance Expense	164,779,450	(82,654,012)	82,125,438
16	Depreciation and Amortization Expenses			
17	Depreciation	51,320,150	(7,901,086)	43,419,064
18	Amortization. & Depletion Of Utility Plant	4,287,557	(271,358)	4,016,199
19	Net Amortization of Regulatory Credits/Debits	-	-	-
20	Accretion Expense	-	-	-
21	Total Depreciation and Amortization Expenses	55,607,707	(8,172,443)	47,435,264
22	Taxes Other Than Income Taxes	104,708,806	(52,692,285)	52,016,521
23	TOTAL OPERATING EXPENSE BEFORE INCOME TAXES	$ 325,095,963	$ (143,518,740)	$ 181,577,223

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Adjusted Test Year Jurisdictional Operating Income
For the Twelve Months Ended May 31, 2016

Schedule C-2
Page 2 of 2

Work Paper Reference No(s).: Applicant's C-2.1 & Staff's C-3

Line No.	Description	Unadjusted Revenue & Expenses	Adjustments	Adjusted Revenue & Expenses
		(A)	(B)	(C) = (A) + (B)
1	NOI BEFORE INCOME TAXES	$ 33,651,267	$ 6,677,838	$ 40,329,105
2				
3	Income Taxes-State and Local			
4	Current	144,630	(80,207)	64,423
5	Provision for Deferred Income Taxes	(11,925)	43,005	31,080
6	Total State & Local Income Taxes	132,705	(37,202)	95,503
7	Income Taxes-Federal			
8	Current	10,694,521	(7,836,335)	2,858,186
9	Provision for Deferred Income Taxes	(2,451,500)	(1,543,253)	(3,994,754)
10	Deferred Investment Tax Credit	(169,278)	-	(169,278)
11	Total Federal Income Taxes	8,073,743	(9,379,589)	(1,305,846)
12	Total Income Taxes	8,206,448	(9,416,791)	(1,210,343)
13				
14	**Total Operating Expenses**	333,302,411	(152,935,530)	180,366,881
15				
16	**Net Operating Income**	$ 25,444,819	$ 16,094,628	$ 41,539,448

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Summary of Jurisdictional Adjustments to Operating Income
For the Twelve Months Ended May 31, 2016

Work Paper Reference No(s).: See Below

Line No.	Element of Operating Income	Total Schedule C-3	Federal and State Income Taxes	Universal Service Fund Rider	Reconciliation Rider Nonbypassable	Storm Cost Recovery Rider	Energy Efficiency Rider
	Schedule Reference		C-3.1	C-3.2	C-3.3	C-3.4	C-3.5
		$	$	$	$	$	$
1	**OPERATING REVENUES**						
2	Distribution Revenues	(132,733,371)	-	(27,309,700)	(1,888,969)	(13,182,617)	(49,321,796)
3	Other Retail Revenues	-					
4	Other Operating Revenues	(4,107,531)					
5	Total Operating Revenues	(136,840,902)	-	(27,309,700)	(1,888,969)	(13,182,617)	(49,321,796)
6							
7	**OPERATING EXPENSES**						
8	Operation and Maintenance Expenses						
9	Production Expense	-					
10	Transmission Expense	-					
11	Distribution Expense	(13,571,214)				(10,365,747)	(145,562)
12	Customer Accounts Expenses	(29,867,585)		(27,309,700)			
13	Customer Service and Information Expense	(23,587,953)					(23,658,530)
14	Administrative and General Expense	(15,627,259)					(95,190)
15	Total Operating and Maintenance Expense	(82,654,012)	-	(27,309,700)	-	(10,365,747)	(23,899,282)
16	Depreciation and Amortization Expenses						
17	Depreciation	(7,901,086)					
18	Amortization and Depletion Of Utility Plant	(271,358)					
19	Net Amortization of Regulatory Credits/Debits	-					
20	Accretion Expense	-					
21	Total Depreciation and Amortization Expenses	(8,172,443)	-	-	-	-	-
22	Taxes Other Than Income Taxes	(52,692,285)					(84,507)
23	Income Taxes-State and Local						
24	Current	(80,207)	(80,207)				
25	Provision for Deferred Income Taxes	52,267	52,267				
26	Total State and Local Income Taxes	(27,940)	(27,940)	-	-	-	-
27	Income Taxes-Federal						
28	Current	(7,836,335)	(3,558,527)				
29	Provision for Deferred Income Taxes	(1,543,253)	2,949,228				
30	Deferred Investment Tax Credit	-	-				
31	Total Federal Income Taxes	(9,379,589)	(609,299)	-	-	-	-
32							
33	Total Operating Expenses	(152,926,268)	(637,239)	(27,309,700)	-	(10,365,747)	(23,983,789)
34							
35	**Net Operating Income**	16,085,366	637,239	-	(1,888,969)	(2,816,870)	(25,338,007)

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Summary of Jurisdictional Adjustments to Operating Income
For the Twelve Months Ended May 31, 2016

Schedule C-3
Page 2 of 6

Work Paper Reference No(s).: See Below

Line No.	Element of Operating Income	Economic Development Discounts & Rider	Alternative Energy Rider	State Excise Tax Rider	Property Taxes	Commercial Activity Tax	Annualized AES Services Labor
	Schedule Reference	C-3.6	C-3.7	C-3.8	C-3.9	C-3.10	C-3.11
		$	$	$	$	$	$
1	**OPERATING REVENUES**						
2	Distribution Revenues	1,171,196	-	(49,775,497)	-	-	-
3	Other Retail Revenues						
4	Other Operating Revenues	(952,573)					
5	Total Operating Revenues	218,623	-	(49,775,497)	-	-	-
6							
7	**OPERATING EXPENSES**						
8	Operation and Maintenance Expenses						
9	Production Expense						
10	Transmission Expense						
11	Distribution Expense						-
12	Customer Accounts Expenses						-
13	Customer Service and Information Expense						-
14	Administrative and General Expense		(785,426)				(1,383,052)
15	Total Operating and Maintenance Expense	-	(785,426)	-	-	-	(1,383,052)
16	Depreciation and Amortization Expenses						
17	Depreciation						
18	Amortization and Depletion Of Utility Plant						
19	Net Amortization of Regulatory Credits/Debits						
20	Accretion Expense						
21	Total Depreciation and Amortization Expenses	-	-	-	-	-	-
22	Taxes Other Than Income Taxes			(49,785,674)	(3,144,396)	206,313	(26,091)
23	Income Taxes-State and Local						
24	Current						
25	Provision for Deferred Income Taxes						
26	Total State and Local Income Taxes	-	-	-	-	-	-
27	Income Taxes-Federal						
28	Current						
29	Provision for Deferred Income Taxes						
30	Deferred Investment Tax Credit						
31	Total Federal Income Taxes	-	-	-	-	-	-
32							
33	Total Operating Expenses	-	(785,426)	(49,785,674)	(3,144,396)	206,313	(1,409,143)
34							
35	**Net Operating Income**	218,623	785,426	10,177	3,144,396	(206,313)	1,409,143

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Summary of Jurisdictional Adjustments to Operating Income

For the Twelve Months Ended May 31, 2016

Work Paper Reference No(s).: See Below

Schedule C-3
Page 3 of 6

Line No.	Element of Operating Income	Annualized DP&L Labor and Payroll Tax	Annualized Employee Benefits	Annualized Depreciation Expense	Interest on Customer Deposits	Rate Case Expense	Uncollectible Expense
	Schedule Reference	C-3.12	C-3.13	C-3.14	C-3.15	C-3.16	C-3.17
		$	$	$	$	$	$
1	**OPERATING REVENUES**						
2	Distribution Revenues	-	-	-	-	-	-
3	Other Retail Revenues						
4	Other Operating Revenues						
5	Total Operating Revenues	-	-	-	-	-	-
6							
7	**OPERATING EXPENSES**						
8	Operation and Maintenance Expenses						
9	Production Expense						
10	Transmission Expense						
11	Distribution Expense	-					
12	Customer Accounts Expenses	-			1,086,028		(3,643,913)
13	Customer Service and Information Expense	-					
14	Administrative and General Expense	(5,874,145)	(3,885,194)			417,765	
15	Total Operating and Maintenance Expense	(5,874,145)	(3,885,194)	-	1,086,028	417,765	(3,643,913)
16	Depreciation and Amortization Expenses						
17	Depreciation			(7,901,086)			
18	Amortization and Depletion Of Utility Plant			(271,358)			
19	Net Amortization of Regulatory Credits/Debits						
20	Accretion Expense						
21	Total Depreciation and Amortization Expenses	-	-	(8,172,443)	-	-	-
22	Taxes Other Than Income Taxes	45,612					
23	Income Taxes-State and Local						
24	Current						
25	Provision for Deferred Income Taxes						
26	Total State and Local Income Taxes	-	-	-	-	-	-
27	Income Taxes-Federal						
28	Current						
29	Provision for Deferred Income Taxes						
30	Deferred Investment Tax Credit						
31	Total Federal Income Taxes	-	-	-	-	-	-
32							
33	Total Operating Expenses	(5,828,533)	(3,885,194)	(8,172,443)	1,086,028	417,765	(3,643,913)
34							
35	**Net Operating Income**	5,828,533	3,885,194	8,172,443	(1,086,028)	(417,765)	3,643,913

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Summary of Jurisdictional Adjustments to Operating Income
For the Twelve Months Ended May 31, 2016

Work Paper Reference No(s).: See Below

Line No.	Element of Operating Income	Non-Jurisdictional Revenue and Expense	General Advertising	PUCO Approved Payments by Shareholders	Miscellaneous Expense Adjustments	Major Storm Expense	Unbilled Revenue and Expense
	Schedule Reference	C-3.18	C-3.19	C-3.20	C-3.21	C-3.22	C-3.23
		$	$	$	$	$	$
1	**OPERATING REVENUES**						
2	Distribution Revenues	-	-	-	-	-	2,672,207
3	Other Retail Revenues						
4	Other Operating Revenues	(5,394,453)					
5	Total Operating Revenues	(5,394,453)	-	-	-	-	2,672,207
6							
7	**OPERATING EXPENSES**						
8	Operation and Maintenance Expenses						
9	Production Expense						
10	Transmission Expense						
11	Distribution Expense	(963,522)			(5,820)	(429,973)	13,299
12	Customer Accounts Expenses						
13	Customer Service and Information Expense						70,577
14	Administrative and General Expense	(62,718)	(760,752)	(2,030,000)	(649,910)		(6,890)
15	Total Operating and Maintenance Expense	(1,026,240)	(760,752)	(2,030,000)	(655,731)	(429,973)	76,986
16	Depreciation and Amortization Expenses						
17	Depreciation						
18	Amortization and Depletion Of Utility Plant						
19	Net Amortization of Regulatory Credits/Debits						
20	Accretion Expense						
21	Total Depreciation and Amortization Expenses	-	-	-	-	-	-
22	Taxes Other Than Income Taxes						96,458
23	Income Taxes-State and Local						
24	Current						
25	Provision for Deferred Income Taxes						
26	Total State and Local Income Taxes	-	-	-	-	-	-
27	Income Taxes-Federal						
28	Current						
29	Provision for Deferred Income Taxes						
30	Deferred Investment Tax Credit						
31	Total Federal Income Taxes	-	-	-	-	-	-
32							
33	Total Operating Expenses	(1,026,240)	(760,752)	(2,030,000)	(655,731)	(429,973)	173,444
34							
35	**Net Operating Income**	(4,368,213)	760,752	2,030,000	655,731	429,973	2,498,763

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Summary of Jurisdictional Adjustments to Operating Income
For the Twelve Months Ended May 31, 2016

Work Paper Reference No(s).: See Below

Line No.	Element of Operating Income	Company Use Credit	Test Year Revenue	Forecasted Energy Efficiency	Maintenance of Overhead Lines	Intentionally Left Blank	Statutory Federal Income Tax Rate Change to 21%
	Schedule Reference	**C-3.24**	**C-3.25**	**C-3.26**	**C-3.27**	**C-3.28**	**C-3.29**
		$	$	$	$	$	$
1	**OPERATING REVENUES**						
2	Distribution Revenues	-	2,635,856	2,265,949			
3	Other Retail Revenues						
4	Other Operating Revenues						
5	Total Operating Revenues	-	2,635,856	2,265,949		-	
6							
7	**OPERATING EXPENSES**						
8	Operation and Maintenance Expenses						
9	Production Expense						
10	Transmission Expense						
11	Distribution Expense				(1,673,889)		
12	Customer Accounts Expenses						
13	Customer Service and Information Expense						
14	Administrative and General Expense	474,610					
15	Total Operating and Maintenance Expense	474,610	-	-	(1,673,889)		
16	Depreciation and Amortization Expenses						
17	Depreciation						
18	Amortization and Depletion Of Utility Plant						
19	Net Amortization of Regulatory Credits/Debits						
20	Accretion Expense						
21	Total Depreciation and Amortization Expenses	-	-	-	-		
22	Taxes Other Than Income Taxes						
23	Income Taxes-State and Local						
24	Current						
25	Provision for Deferred Income Taxes						
26	Total State and Local Income Taxes	-	-	-	-		
27	Income Taxes-Federal						
28	Current						(4,277,808)
29	Provision for Deferred Income Taxes						507,547
30	Deferred Investment Tax Credit						
31	Total Federal Income Taxes	-	-	-	-		(3,770,262)
32							
33	Total Operating Expenses	474,610	-	-	(1,673,889)		(3,770,262)
34							
35	**Net Operating Income**	(474,610)	2,635,856	2,265,949	1,673,889	-	3,770,262

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Summary of Jurisdictional Adjustments to Operating Income
For the Twelve Months Ended May 31, 2016

Work Paper Reference No(s).: See Below

Schedule C-3
Page 6 of 6

Line No.	Element of Operating Income	Amortization of Excess ADIT	Forfeited Discount Revenues at 100%	DP&L Conceded Expense Adjustment	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank
	Schedule Reference	**C-3.30**	**C-3.31**	**C-3.32**	**C-3.33**	**C-3.34**	**C-3.35**

		$	$	$	$	$	$
1	**OPERATING REVENUES**						
2	Distribution Revenues	-	-	-		-	
3	Other Retail Revenues						
4	Other Operating Revenues		2,239,495				
5	Total Operating Revenues	-	2,239,495	-		-	
6							
7	**OPERATING EXPENSES**						
8	Operation and Maintenance Expenses						
9	Production Expense						
10	Transmission Expense						
11	Distribution Expense				-		
12	Customer Accounts Expenses						
13	Customer Service and Information Expense						
14	Administrative and General Expense	-		(986,357)			
15	Total Operating and Maintenance Expense	-	-	(986,357)	-		
16	Depreciation and Amortization Expenses						
17	Depreciation						
18	Amortization and Depletion Of Utility Plant						
19	Net Amortization of Regulatory Credits/Debits						
20	Accretion Expense						
21	Total Depreciation and Amortization Expenses	-	-	-	-		
22	Taxes Other Than Income Taxes						
23	Income Taxes-State and Local						
24	Current						
25	Provision for Deferred Income Taxes						
26	Total State and Local Income Taxes	-	-	-	-		
27	Income Taxes-Federal						
28	Current						
29	Provision for Deferred Income Taxes	(5,000,028)					
30	Deferred Investment Tax Credit						
31	Total Federal Income Taxes	(5,000,028)	-	-	-		
32							
33	Total Operating Expenses	(5,000,028)	-	(986,357)	-		
34							
35	**Net Operating Income**	5,000,028	2,239,495	986,357	-	-	

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Adjust Federal and State Income Taxes
For the Twelve Months Ended May 31, 2016

Schedule C-3.1
Page 1 of 1

Work Paper Reference No(s).: WPC-3.1

Line No.	Acct. No.	Description	Total Adjustment	Allocation %	Allocation Code	Jurisdictional Amount
(A)	(B)	(C)	(D)	(E)	(F)	(G) = (D) * (E)
1		Purpose and Description:				
2		Calculate the income tax effect of various C-3 adjustments				
3						
4		Income Taxes				
5	409	Current State and Local Income Tax Expense	$ (80,207)	100.00%	DIRECT	$ (80,207)
6	410-411	Deferred State and Local Income Tax Expense	52,267	100.00%	DIRECT	52,267
7		Total State and Local Income Taxes	(27,940)			(27,940)
8						
9	409	Current Federal Income Tax Expense	(3,558,527)	100.00%	DIRECT	(3,558,527)
10	410-411	Deferred Federal Income Tax Expense	2,949,228	100.00%	DIRECT	2,949,228
11	411	Deferred Investment Tax Credit Expense	-	100.00%	DIRECT	-
12		Total Federal Income Taxes	(609,299)			(609,299)
13						
14		Total Income Tax Expense (Line 7 + Line 12)	$ (637,239)			$ (637,239)

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR

Adjust Federal and State Income Taxes
For the Twelve Months Ended May 31, 2016

Staff Workpaper C-3.1
Page 1 of 2

Work Paper Reference No(s).: See Below

Line No.	Schedule Ref	Description		Total OCC Jurisdictional Adjustment
(A)	(B)	(C)		(D)
1	C-3.2	Universal Service Fund Rider	$	-
2	C-3.3	Reconciliation Rider Nonbypassable	$	(1,888,969)
3	C-3.4	Storm Cost Recovery Rider	$	(2,816,870)
4	C-3.5	Energy Efficiency Rider	$	(25,338,007)
5	C-3.6	Economic Development Discounts & Rider	$	218,623
6	C-3.7	Alternative Energy Rider	$	785,426
7	C-3.8	State Excise Tax Rider	$	10,177
8	C-3.9	Property Taxes	$	3,144,396
9	C-3.10	Commercial Activity Tax	$	(206,313)
10	C-3.11	Annualized Service Company Labor	$	1,409,143
11	C-3.12	Annualized DP&L Labor and Payroll Tax	$	5,828,533
12	C-3.13	Annualized Employee Benefits	$	3,885,194
13	C-3.14	Annualized Depreciation Expense	$	8,172,443
14	C-3.15	Interest on Customer Deposits	$	(1,086,028)
15	C-3.16	Rate Case Expense	$	(417,765)
16	C-3.17	Uncollectible Expense	$	3,643,913
17	C-3.18	Non-Jurisdictional Revenue and Expense	$	(4,368,213)
18	C-3.19	General Advertising	$	760,752
19	C-3.20	PUCO Approved Payments by Shareholders	$	2,030,000
20	C-3.21	Miscellaneous Expense Adjustments	$	655,731
21	C-3.22	Major Storm Expense	$	429,973
22	C-3.23	Unbilled Revenue and Expense	$	2,498,763
23	C-3.24	Company Use Credit	$	(474,610)
24	C-3.25	Test Year Revenue	$	2,635,856
25	C-3.26	Eliminate Forecasted EE	$	2,265,949
26	C-3.27	Adjust Maintenance of Overhead Lines Expense	$	1,673,889
27	C-3.28			
28	C-3.31	Forfeited Discount Revenues at 100%	$	2,239,495
	C-3.32	Conceded Reduction in Miscellaneous General Expenses	$	986,357
29	C-3	Total Adjustment to Oper Inc Before SALT	$	6,677,838
30				
31		Deduction for Current State Tax	$	(80,207)
32				
33		Total Operating Inc Before Fed	$	6,758,045
34				
35		Proforma Interest Expense[1]	$	(9,659,470)
36				
37		Adj Oper Inc Before Fed Inc Tax	$	(2,901,425)
38				
39		Perms (comes from ETR calc)	$	-
40		Meals & Entertainment	$	-
41		Non-Deductible Political Contr.	$	-
42		Fines & Penalties	$	-
43		AFUDC Equity	$	-
44		Total Perm Adj	$	-

1

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR

Adjust Federal and State Income Taxes
For the Twelve Months Ended May 31, 2016

Staff Workpaper C-3.1
Page 2 of 2

Work Paper Reference No(s).: See Below

Line No.	FERC Acct.	Description		Total Jurisdictional Adjustment
(A)	(B)	(C)		(D)
1		Temporary Diffs		
2		Book Depr	$	(8,172,443)
3		Tax Depr	$	-
4				
5		Other Temps		
6		Repairs	$	-
7		Sec 263A	$	-
8		Bond Amort	$	-
9		Post Retirement Benefits	$	-
10		Pension	$	(3,885,194)
11		Vacation	$	-
12		Accrued Claims	$	-
13		Incentive Bonus	$	(832,975)
14		Def Comp/Severance	$	517,728
15		Reg Assets/Liab - ST	$	-
16		Reg Assets/Liab - LT	$	-
17		Rate Case Expense	$	(1,671,059)
18		Total Other Temp Diffs	$	(5,871,500)
19				
20		Taxable Income	$	(16,945,368)
21				
22		Fed Tax Rate		21.00%
23				
24	409	Fed Inc Tax	$	(3,558,527)
25				
26		Deferred Income Tax Expense (Net):		
27	410-411	Depreciation Related	$	1,716,213
28	410-411	Excess DFIT Reversal - Depr	$	-
29	410-411	Other Temp Differences	$	1,233,015
30				
31		Total Federal Income Tax	**$**	**(609,299)**
32				
33		State Tax Rate		0.4711%
34				
35	409	State Inc Tax	$	(80,207)
36				
37	410-411	Deferred State Income Tax Expense	$	52,267
38				
39		Total State Income Tax	**$**	**(27,940)**
40				
41		Total Income Tax Expense	**$**	**(637,239)**

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Include Interest on Customer Service Deposits
For the Twelve Months Ended May 31, 2016

Schedule C-3.15
Page 1 of 1

Work Paper Reference No(s): WPC-3.15

Line No.	Acct. No.	Description	Total Adjustment	Allocation %	Allocation Code	Jurisdictional Amount
(A)	(B)	(C)	(D)	(E)	(F)	(G) = (D) * (E)
1		Purpose and Description:				
2		Include customer deposit interest expense as the statutory rate applied to the date certain balance of customer deposits				
3						
4		Expense				
5	431	Interest On Customer Service Deposits	$ 1,086,028	100.00%	ALLDIST	$ 1,086,028

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Restate Unadjusted Test Year for Current Tax Law 21% FIT Rate
For the Twelve Months Ended May 31, 2016

Schedule C-3.29
Page 1 of 2

Line No.	Description	Unadjusted Jurisdictional At Current Revenues (Note a)		
		As Filed DP&L Schedule C-4	Revised to 21% FIT Rate	OCC Adjustment
(A)	(B)	(C)	(D)	(E) = (D)-(C)
1	Operating Income Before State & Local Income Taxes	$ 33,651,267		
2				
3	Current State & Local Income Tax Expense	144,630		
4				
5	Operating Income Before Federal Income Taxes	33,506,637		
6				
7	Reconciling Items:			
8	Interest Charges	(7,021,928)		
9				
10	Schedule M Reconciling Items:			
11	Tax Accelerated Depreciation	31,066,838		
12	Book Depreciation	55,607,708		
13	*Excess of Book Over Tax Depreciation*	24,540,870		
14				
15	Other Reconciling Items	(20,469,804)		
16				
17	Total Schedule M Reconciling Items	4,071,065		
18				
19	Federal Taxable Income	$ 30,555,774		
20				
21	Federal, State, Local Income Taxes			
22	Federal @ Statutory Rate	35.00%	21.00%	
23		35.00%		
		35.30%		

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Restate Unadjusted Test Year for Current Tax Law 21% FIT Rate
For the Twelve Months Ended May 31, 2016

Schedule C-3.29
Page 2 of 2

Line No.	Description	Unadjusted Jurisdictional At Current Revenues		
		As Filed DP&L Schedule C-4	Revised to 21% FIT Rate	OCC Adjustment
(A)	(B)	(C)	(D)	(E) = (D)-(C)
1	Current Federal Income Tax @ Statutory Rates	$ 10,694,521	$ 6,416,713	$ (4,277,808)
2		-	-	-
3				
4	Current Federal Income Tax Expense	10,694,521	6,416,713	$ (4,277,808)
5				
6	Deferred Income Tax Expense (Net):			
7	Depreciation Related	(8,589,304)	(5,153,583)	3,435,722
8	Excess DFIT Reversal - Depreciation	(1,089,030)	(1,089,030)	-
9	Other Temporary Differences	7,226,834	4,298,659	(2,928,175)
10				
11	Total Deferred Federal Income Taxes (Net)	(2,451,500)	(1,943,954)	507,547
12				
13	Amortization of Deferred Investment Tax Credits	(169,278)	(169,278)	(0)
14				
15	Total Federal Income Tax Expense	8,073,743	4,303,481	(3,770,262)
16				
17	Current State & Local Income Tax Expense	144,630	144,630	-
18	Deferred State & Local Income Tax Expense	(11,925)	(11,925)	-
19				
20	Total State & Local Income Tax Expense	132,705	132,705	-
21				
22	Total Income Tax Expense	$ 8,206,448	$ 4,436,186	$ (3,770,262)

Case No. 15-1830-EL-AIR
Restate Unadjusted Test Year ADIT Balances for Current Tax Law - 21% FIT Rate
For the Twelve Months Ended May 31, 2016

Schedule C-3.30
Page 1 of 1

Line No.	Description	Accumulated Deferred Income Taxes (Staff Report B-6) Adjusted Jurisdictional	Revised to 21% FIT Rate	Estimated Excess Balance
(A)	(B)	(C)	(D)	(E) = (C)-(D)
1	Accumulated Deferred Income Taxes - Account 190	$ 707,081	$ 424,249	$ 282,832
2				
3	Utility Property Related - Account 282	(183,030,733)		
4	Less: Plant Property & Equipment - Normalization Restrictec	120,952,134	(Note a)	
5	Other Non-Property Account 282 (Repairs/Other)	(62,078,599)	(37,247,159)	(24,831,440)
6				
7	Accumulated Deferred Income Taxes - Account 283	(1,128,830)	(677,298)	(451,532)
8	Total Excess ADIT Balance Not Code Restricted	(62,500,348)	(37,500,209)	
9				
10	Sum of Excess ADIT Balance - Eligible for Amortization			$ (25,000,139)
11				
12	Proposed Amortization Period - Years			5 years
13				
14				
15	OCC Adjustment to Amortize Excess Deferred Income Taxes Due to FIT Rate Change			$ (5,000,028)

Footnotes:
a) See DP&L Workpaper B-6a, page 1 at line 27 for "Plant, Property & Equipment" portion of Account 282

Case No. 15-1830-EL-AIR
Include 100 Percent of Late Payment (Forfeited Discount) Revenues as Jurisdictional
For the Twelve Months Ended May 31, 2016

Schedule C-3.31
Page 1 of 1

Line No.	Description	Forfeited Discount Test Year Revenues: Amounts Included by Staff and DP&L (Note a)	Revised to Include 100% per OCC	Test Year Adjustment
(A)	(B)	(C)	(D)	(E) = (D)-(C)
1	Test Year Forfeited Discount Revenues	$ 3,106,958	$ 3,106,958	
2				
3	DP&L Proposed Jurisdictional Allocation Factor	27.92%		
4	OCC Proposed Jurisdictional Allocation Factor		100%	
5				
6	Jurisdictional Forfeited Discount Revenues	$ 867,463	$ 3,106,958	$ 2,239,495
7				
8	OCC Adjustment to Include 100% of Late Payment (Forfeited Discount) Revenues as Jurisdictional			$ 2,239,495

Footnotes:
a) Company and Staff Proposed Amounts from Schedule C-2.1, page 1 at line 9.

Case No. 15-1830-EL-AIR
DP&L Agreed Reduction to Miscellaneous Expenses
For the Twelve Months Ended May 31, 2016

Line No.	Description	Reference		Test Year Adjustment
(A)	(B)	(C)		(D)
1	Miscellaneous Expenses "Inadvertently Included" by DP&L - Actual Months June-Sept 2015	OCC Int. 497	$	829,429
2	Factor to Expand Line 1 to full year (12 months / 4 months)	= 12 / 4		3.00
3	Annualized Miscellaneous Expenses "Inadvertently Included" by DP&L	Line 1 * Line 2	$	2,488,287
4	Times: Jurisdictional Allocation Factor	Schedule B-7.1, line 22		39.64%
5	Jurisdictional Expenses "Inadvertently Included" by DP&L	Line 3 * Line 4	$	986,357
6	OCC Adjustment to Remove Expenses Inadvertently Included by DP&L	Line 5	$	(986,357)

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Rate of Return Summary
Capital Structure as of December 31, 2015

Schedule D-1
Page 1 of 1

	Amount $	% of Total	% Cost	Weighted Cost %
Long Term Debt	$1,012,472,520	52.48%	5.29%	2.78%
Preferred Stock	$0	0.00%	0.00%	0.00%
Common Equity	$916,781,520	47.52%	8.55%	4.06%
Total Capital	$1,929,254,040	100.00%		6.84%

FILED
February 16, 2018
INDIANA UTILITY
REGULATORY COMMISSION

CAUSE NO. 45029

VERIFIED DIRECT TESTIMONY

OF

FRANK J. SALATTO

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

REVISED TO REFLECT THE TAX CUTS AND JOBS ACT

REVISED

VERIFIED DIRECT TESTIMONY OF FRANK J. SALATTO ON BEHALF OF INDIANAPOLIS POWER & LIGHT COMPANY

Q1. Please state your name, employer and business address.

A1. My name is Frank J. Salatto. I am employed by AES U.S. Services, LLC, the service company of Indianapolis Power & Light Company ("IPL" or "Company"). My business address is One Monument Circle, Indianapolis, Indiana 46204.

Q2. What is your position with AES US Services, LLC?

A2. My title is Director, US Tax Reporting. My primary responsibilities are related to the regulated utilities.

Q3. Please describe your duties as Director, US Tax Reporting.

A3. I manage all aspects of federal and state income, property, sales and use tax for the regulated businesses~~ that are part of the US SBU~~, including IPL. I work closely with the ~~US SBU~~ accounting, finance, legal, operations and development teams.

Q4. Please summarize your educational and professional qualifications.

A4. I hold a Bachelor of Science degree in Accounting from the University of Maryland and have passed the Certified Public Accountant exam.

Q5. Please summarize your prior work experience.

A5. I have over 25 years of experience in income taxes and tax accounting, primarily with regulated electric utilities. I previously worked for Pepco Holdings, Inc. (PHI) and its predecessors in various levels of responsibility including as Manager of Income and Regulatory Tax Accounting and Reporting. My particular area of focus was in PHI's

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regulated utilities – Pepco, Delmarva Power and Light and Atlantic City Electric. In that role, I was responsible for the tax accounting, filing of tax returns and the development and defense of PHI's tax positions before the IRS and state.

Q6. Have you previously testified before the Indiana Utility Regulatory Commission ("IURC" or "Commission") or other regulatory agencies?

A6. I have not testified before the IURC. However, I have testified before the utility rate commissions in Maryland, the District of Columbia and Delaware in a variety of cases regarding the provision of taxes for Pepco and Delmarva Power and Light.

Q7. What is the purpose of your testimony in this proceeding?

A7. The purpose of my testimony in this proceeding is to present and support the federal, state, and local income taxes to which IPL is subject. I am also responsible for the calculation of the gross income conversion factor and adjustments to certain taxes other than income taxes. My testimony includes a discussion of the Tax Cuts and Jobs Act of 2017 ("TCJA").

Q8. Are you sponsoring any exhibits or schedules?

A8. Yes. I ~~am sponsoring~~have updated all the financial exhibits filed along with my originally filed direct testimony to reflect the impacts of the TCJA and I continue to sponsor the following:

- IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ2-T –Gross Revenue Conversion Factor
- IPL Financial Exhibit IPL-OPER, Schedule OTX1-T – Summary of Taxes Other Than Income Taxes
- IPL Financial Exhibit IPL-OPER, Schedule OTX2 – Real Estate and Personal Property Taxes, Including Rail Car Tax

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- IPL Financial Exhibit IPL-OPER, Schedule OTX4-T – Indiana Utility Receipts Tax
- IPL Financial Exhibit IPL-OPER, Schedule TX1-T – Summary of Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX2-T – Current Federal Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX3-T – Current State Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX4-T – Deferred Federal and State Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX-5 – Investment Tax Credit Adjustments
- IPL Financial Exhibit IPL-OPER, Schedule TX6-T – Interest Synchronization
- IPL Financial Exhibit IPL-OPER, Schedule TX-7 – Imputation of Parent Company Interest
- IPL Financial Exhibit IPL-OPER, Schedule TX8-T – Effective Income Tax Rate

Q9. Were the Exhibits or portions of the Exhibits that you are sponsoring prepared or assembled by you or under your direction or supervision?

A9. Yes.

Q10. Did you submit any workpapers?

A10. Yes. The calculations shown on the schedules identified above have been cross-referenced, when appropriate, to the workpapers which provide additional detailed support for these calculations. Where appropriate, the workpapers were updated to reflect the impacts of the TCJA.

Q11. Please explain the normalization method of accounting used for income taxes and ratemaking.

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A11. For income tax return purposes, the Company's depreciation deductions are calculated using accelerated rates and lives provided for in the Internal Revenue Code. For regulatory and book accounting purposes, depreciation expense is calculated on a straight-line basis over the useful life of the relevant property using depreciation rates approved by the Commission. In order for the Company to continue its ability to claim accelerated depreciation on its tax returns, tax expense included in the cost of service must use the same depreciation method (the same life and method) as is used elsewhere for cost of service. The difference between the book and tax depreciation amounts result in a deferred tax – initially a deferred tax liability that begins to reverse once book depreciation exceeds tax depreciation until it ultimately fully reverses and the deferred tax balance is zero. This deferred tax liability is allowed to be included as zero-cost capital by regulators. The regulatory treatment of depreciation and the related deferred taxes included in the income tax component of cost of service is referred to as the normalization method of accounting.

Q12. Please explain IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ2-T – Gross Revenue Conversion Factor.

A12. IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ2-T shows the calculation of the factor necessary to determine the incremental amount of gross revenue required to generate an additional dollar of operating income after payment of all public utility assessment fees and federal and state income taxes. This exhibit calculates income tax expense based on the underlying financial data of the Company, including all applicable revenues and expenses. The income tax calculation includes both the current and deferred components of income tax expense, based upon the 2018 statutory rates, the rates in effect when the order in the case is expected to be effective.

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Q13. Please explain IPL Financial Exhibit IPL-OPER, Schedule OTX-1-T Summary of Taxes Other.

A13. This schedule summarizes the total amount of taxes other than income taxes incurred by the Company for the test year with adjustments. It is divided into real estate and personal property taxes, payroll taxes, Indiana utility receipts taxes and miscellaneous taxes. The detail supporting the calculations on this schedule is shown on IPL Financial Exhibit IPL-OPER, Schedules OTX2 and OTX4-4-T.

Q14. Please explain IPL Financial Exhibit IPL-OPER, Schedule OTX2 – Real Estate and Personal Property Taxes, Including Rail Car Tax.

A14. IPL Financial Exhibit IPL-OPER, Schedule OTX2 summarizes the property tax liabilities of the Company based on the most recent assessments and rates. The detail concerning the most recent assessed values and the most recent tax rates is set forth in my workpapers. Property tax expense for the test year includes an adjustment for the property taxes associated with the CCGT for the initial year in which it is placed in service. The adjustment is necessary to annualize and normalize the increase to property tax expense that is caused by placing the CCGT in service during the adjustment period. During construction, property tax expense is accrued on construction work in progress. Once the CCGT is placed in service, property tax expense will accrue as utility plant in service. I have computed the property tax expense that will accrue the first tax year on the CCGT, reflecting as well a 60% property tax abatement that has been granted by Morgan County and which will take effect once the CCGT is in service.

Q15. Please explain IPL Financial Exhibit IPL-OPER, Schedule OTX4-T – Indiana Utility Receipts Tax.

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A15. IPL Financial Exhibit IPL-OPER, Schedule OTX4-T calculates the Company's Indiana Utility Receipts Tax liability for the test year based on the current tax rate of 1.4%. The test year calculation is then updated to include appropriate pro forma adjustments to the receipts subject to Utility Receipts Tax. ~~By far the~~The largest pro forma adjustment is related to electric retail revenues, as illustrated in IPL Financial Exhibit IPL-OPER, Schedule REV1, which is addressed in IPL Witness Forestal's testimony.

Q16. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX1-T – Summary of Income Tax Expense.

A16. This schedule summarizes the total amount of income tax expense incurred by the Company for the test year with adjustments. It is divided into current and deferred income tax expense. The detail supporting the calculations on this schedule is shown on IPL Financial Exhibit IPL-OPER, Schedules TX2-T through TX7.

Q17. Please explain IPL Financial Exhibit IPL-OPER, Schedules TX2-T (Current Federal Income Tax Expense) and TX3-T (Current State Income Tax Expense).

A17. IPL Financial Exhibit IPL-OPER, Schedules TX2-T and TX3-T show the calculation of current federal and state income tax expense, both of which carry over into lines 1 and 2 on IPL Financial Exhibit IPL-OPER, Schedule TX~~1,~~1-T. I will start my explanation with IPL Financial Exhibit IPL-OPER, Schedule TX~~2,~~2-T, which calculates current federal income tax expense at present and proposed rates. The calculation of federal income tax expense (current and deferred) begins with the determination of net operating income before tax (pre-tax operating income). Before we can apply the federal income tax rate of ~~35~~21%, we must first adjust for permanent differences. These are items where, for instance, expenses may not be fully deductible for purposes of computing taxable income or where deductions

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may be allowed for tax purposes which are not reflected in the calculation of pre-tax operating income. These permanent differences are shown in lines 6 through 10 of IPL Financial Exhibit IPL-OPER, Schedule TX~~2.~~2-T. To compute the current portion of federal income tax expense (as compared to the deferred portion), we must also account for temporary differences. The most common of these differences is the use of accelerated methods of depreciation for tax. The temporary differences are indicated on lines 12 through 52 of IPL Financial Exhibit IPL-OPER, Schedule TX~~2.~~2-T. Next, we deduct synchronized interest on line 54 of IPL Financial Exhibit IPL-OPER, Schedule TX~~2.~~2-T. IPL Financial Exhibit IPL-OPER, Schedule TX6-T shows the calculation of the amount of interest expense deduction used by the Company for purposes of computing income tax expense. This amount is calculated by multiplying the adjusted rate base by the weighted cost of long-term debt. This interest expense deduction methodology is consistent with past Commission practice. The next adjustment is for the allocation of parent company interest, which is shown on line 55 of IPL Financial Exhibit IPL-OPER, Schedule TX~~2.~~2-T. Consistent with prior Commission Orders, this is an adjustment to reduce the Company's income tax expense for an allocated share of the tax benefit associated with the interest expense incurred by its parent company (The AES Corporation) as a result of the Company's participation in The AES Corporation's consolidated income tax return filings. This calculation is illustrated in IPL Financial Exhibit IPL-OPER, Schedule TX7. The computation reflected in IPL Financial Exhibit IPL-OPER, Schedule TX7 includes an adjustment to remove the portion of the Company's capital contributed by CDPQ,[1] as the Company neither engages in, nor benefits from, the filing of a consolidated income tax

[1] CDP Infrastructure Fund GP, a wholly-owned subsidiary of La Caisse de depot et placement du Quebec ("CDPQ"), owns a minority equity interest in IPALCO, IPL's immediate parent company.

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return with this entity. State income tax is then deducted to arrive at taxable income for purposes of computing current federal income tax expense at present and proposed rates. IPL Financial Exhibit IPL-OPER, Schedule TX3-T provides a calculation of current state income tax expense. The starting point for this calculation is federal taxable income. On line 61 current tax expense is calculated at 35%, this was done so that the schedule reconciles to the per books amounts. The amount shown on line 62, column 3 recalculates the tax at the newly enacted 21% statutory rate and the amount shown on line 62, column 2 calculates the difference in tax between 35% and 21%. Finally, on line 63, the estimated 2018 reversal of the excess deferred taxes is shown which further reduces tax expense. While the reversal of the excess deferred tax amount is actually an adjustment to deferred taxes, it is included in IPL Financial Exhibit IPL-OPER, Schedule TX2-T so that it is more easily identified and incorporated into tax expense.

Q18. In computing the state income taxes in IPL Financial Exhibit IPL-OPER, Schedule TX~~3,~~3-T, what state income tax rate was used?

A18. Since the Indiana state tax rate is decreasing over a several year period with each step down in the rate being effective July 1st of the taxable year, the State requires that, for fiscal year taxpayers like IPL a "blended" tax rate should be used. The blended rate is an average of the tax rates in effect between January 1st and June 30th and the July 1st and December 31st. This rate was used in compliance with the Commission's March 16, 2016 Order in Cause No. 44576. In that Order (p. 60), the Commission agreed that in determining tax expense, the rate at which IPL's income will taxed should be used. The Commission indicated that the correct rate to be used to determine the rates going forward is the tax rate in effect during the rate effective period. In this instance, the rate used in the calculation of

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state income taxes in this case is 5.875%. This is the statutory rate for 2018, the period we anticipate the order in this case to become effective.

Q19. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX4-T – Deferred Federal and State Income Tax Expense.

A19. This schedule shows the itemization of the components of federal and state deferred income tax expense at present and proposed rates. Line 48 of this schedule calculates the impact of the newly enacted 21% tax rate on the per books amounts shown in Column 1 which are calculated at the then appropriate 35% tax rate for the test year. The totals on lines 3 and 4 of IPL Financial Exhibit IPL-OPER, Schedule TX1-T are drawn from lines 45-51 from IPL Financial Exhibit IPL-OPER, Schedule TX4~~.~~ 4-T. Each component feeding the calculation of deferred income tax is listed in this schedule.

Q20. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX5 – Investment Tax Credit (ITC) Adjustments.

A20. This schedule reflects the test year amortization of Investment Tax Credits previously reflected on Federal tax returns over the service life of the property that generated the credits.

Q21. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX6-T – Interest Synchronization.

A21. IPL Financial Exhibit IPL-OPER, Schedule TX6-T shows the calculation of the amount of interest expense deduction used by the Company for purposes of computing income tax expense. This amount is calculated by multiplying the adjusted original cost rate base reflected on IPL Financial Exhibit IPL-RB, Schedule RB-2, which is sponsored by IPL

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Witness Forestal, by the weighted cost of long-term debt. This interest expense deduction methodology is consistent with the last Commission Order.

Q22. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX8-T – Effective Tax Rate.

A22. IPL Financial Exhibit IPL-OPER, Schedule TX8 calculates the Company's effective tax rate after taking into consideration permanent and flow-through timing differences and investment tax credit amortization. The total effective tax rate before rate relief is ~~27.92~~11.32% and is calculated by dividing total income tax expense by pre-tax electric operating income including interest expense. This effective income tax rate includes the reduction to the new statutory of 21% as well as the proposed amortization of the excess accumulated deferred income taxes ("ADIT") which are discussed in more detail later in this testimony.

Q23. On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. Have the impacts of the changes to the tax law been incorporated into the Company's revenue requirement calculations?

A23. Yes, the tax schedules and revenue requirement calculations have been updated for the changes resulting from the new tax law. I discuss this below. IPL Witness Forestal also summarizes the impact of the TCJA on the revenue requirement in his supplemental testimony and explains how the TCJA is reflected in the Company's exhibits.

Q24. What changes were made to reflect the impacts of TCJA?

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A24. The largest change was to reduce the corporate tax rate from 35% to 21%. Tax expense was also adjusted to remove the deduction for domestic manufacturing production (IRC Section 199) which was repealed effective January 1, 2018.

Additionally, ASC 740 (the accounting guidance that governs tax accounting) requires that accumulated deferred income taxes (ADIT) be measured at the tax rate at which they are anticipated to reverse and that, in the event of a tax rate change, the ADIT should be re-measured in the period that the new tax rates are signed into law. Therefore, the Company re-measured its ADIT and recorded a regulatory liability as of December 31, 2017, for the difference between the ADIT accrued at 35% and the re-measured balance calculated at 21%. The difference between the ADIT calculated at 35% and 21% is commonly referred to as excess ADIT. Included in the update to IPL's filing to reflect the impacts of TCJA, is the expected 2018 reversal of the resulting excess ADIT which are included in the calculation of current tax expense. IPL Witness Forestal explains how the Company incorporated the amortization of the excess ADIT into the capital structure.

In total, the TCJA reduced income tax expense at proposed rates in this rate filing from \$71.885million to \$35.053million.

Q25. What are excess ADIT?

A25. Deferred income taxes liabilities are created when the deductions taken on tax returns are greater than the related expenses included in book income. These differences between the book and tax amounts are temporary and "reverse" when the book expense amount is greater than the related amount included on the tax return. Excess ADIT arise when the deferred tax liabilities are created at a tax rate which is higher than the rate expected to be in effect when the deferred tax liability reverses. In this case, IPL's deferred income taxes

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were originally measured at 35% and will reverse when the tax rate is 21%. For example, assume the Company acquires an asset costing $1,000 and depreciates that asset for regulatory purposes over five years using straight line depreciation. For tax purposes, that same asset is depreciated over 3 years. Assume further that the tax rate changes from 35% to 21% starting in year 4 and that after 3 years the asset is fully depreciated for tax purposes and has a remaining book basis of $400. At the end of year 3, the Company has a deferred tax liability ("DTL") of $140 ($400 x 35%). Because of the tax rate change, the Company's deferred tax balance must be re-measured at the new tax rate thereby lowering the DTL from $140 to $84 ($400 x 21%). The $56 difference between the $140 and $84 represents the excess ADIT.

Q26. How will the excess ADIT amount reverse and be reflected in the ratemaking process?

A26. Excess ADIT falls into two categories, which I refer to herein as "normalized" and "non-normalized". The treatment of the normalized excess ADIT is provided in the TCJA. Section 13001(d) of the TCJA provides that "[A] normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method." Therefore, the excess ADIT associated with differences between book and tax lives and book and tax depreciation methods are required to be reversed using the average rate assumption method (ARAM) so as to comply with the normalization provisions of the Internal Revenue Code.

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For the excess ADIT associated with other book and tax differences (*e.g.*, deferred taxes related to pension and post-retirement benefits, allowance for doubtful accounts, etc.), the reversal period is more discretionary. This is the "non-normalized excess ADIT".

Q27. How does average rate assumption method ("ARAM") work?

A27. The Joint Explanatory Statement released by the staffs of the Senate and House conferees describes ARAM as the reduction of "the excess tax liabilities over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes during the years which the deferred tax reserve related to such property is reversing. Under this method, the excess tax reserve is reduced as the timing differences (*i.e.*, differences between tax depreciation and regulatory depreciation with respect to the property) reverse over the remaining life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a taxable year is multiplied by the ratio of (1) the aggregate deferred taxes as of the beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question."

I am including an example of the calculation that was provided in the Joint Explanation publication based on an asset with a total cost of $100, a straight line 10-year book life and a 5-year tax life depreciated using double declining balance:

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Example of the Average Rate Assumption Method (ARAM)

	2016	2017	2018	2019	2020	2021**	2022	2023	2024	2025	Total
Tax Depreciation	20.00	32.00	19.20	11.52	11.52	5.76	-	-	-	-	100.00
Book Depreciation	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	100.00
Temporary Difference	10.00	22.00	9.20	1.52	1.52	(4.24)	(10.00)	(10.00)	(10.00)	(10.00)	-
Tax Rate	35%	35%	21%	21%	21%	31.1%	31.1%	31.1%	31.1%	31.1%	
Annual Deferred Tax Activity	3.5	7.7	1.9	0.3	0.3	(1.3)	(3.1)	(3.1)	(3.1)	(3.1)	-
Annual deferred tax activity @ 21%						(0.9)	(2.1)	(2.1)	(2.1)	(2.1)	
Annual adjustment at average deferral rate						(1.3)	(3.1)	(3.1)	(3.1)	(3.1)	
Reversal of excess deferred tax						0.4	1.0	1.0	1.0	1.0	4.5

Total deferred taxes through 2020	13.77
Total temporary differences through 2020	44.24
Average deferral rate	31.1%

** 2021 is the first year where book depreciation is greater than tax depreciation and, consequently, the first year the excess deferred tax amount starts to reverse.

Q28. What is the amount of the excess ADIT related to the items required to be normalized, *i.e.*, the normalized excess ADIT?

A28. While the final amount of the excess ADIT amount will not be known until after the Company files its 2017 tax return , which is expected to be in September 2018, the current estimate is $99 million (excluding the gross-up for income taxes). The estimated $99 million normalized excess ADIT amount is reasonable as it was computed based upon the remeasurement of the deferred taxes required as part of the Company's year-end income tax provision process. Consequently, the estimated excess ADIT is based on the most recent amounts known and available as of December 31, 2017.

The calculation was completed through IPL's tax depreciation and provision software – PowerTax. The mechanics of the calculation are to multiply the cumulative temporary difference for a specific type of book/tax difference, which is tracked and maintained in

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PowerTax, by the new tax rate and compare that result to the existing deferred tax balance. The difference between the two amounts is the excess ADIT for that temporary difference.

Q29. What are "cumulative temporary differences"?

A29. Cumulative temporary differences represent the total differences between the deductions and income reported on the Company's tax returns and what has been recorded on its books; these amounts are tracked at a specific book/tax difference level. These differences are the support for the Company's deferred tax balances.

Q30. What is the remaining amount not subject to the normalization rules, *i.e.*, the non-normalized excess ADIT?

A30. As with the estimated excess amount required to be normalized, the final amounts will not be known until the 2017 tax return is filed. However, the current estimate is $44.3 million (excluding the gross-up for income taxes). We believe the non-normalized excess ADIT estimate is reasonable for the same reasons as the normalized excess ADIT. The process, timing and method of calculation used to estimate the non-normalized excess ADIT amount were the same as was used to estimate the normalized excess ADIT.

Q31. How will the normalized excess ADIT amount amortize into tax expense?

A31. The Company is proposing an amortization period of 25 years as a proxy until the actual ARAM amortization calculation is complete. This results in a reversal of approximately $4.0 million which reduces the Company's income tax expense for test year. We are proposing a 25-year amortization period for the test year since we believe that it represents a reasonable estimate of the timing of the amortization of the excess ADIT in compliance with ARAM.

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Q32. How is the Company proposing to amortize the non-normalized excess ADIT amount?

A32. The Company is proposing a ten-year amortization period for the non-normalized excess ADIT amount. This results in amortization of approximately $4.5 million which reduces the Company's income tax expense for test year. We believe 10 years is the appropriate time to reverse this excess because that time frame represents a good balance of the timing of the book reversals. For example, the deferred taxes related to bad debts reverse every year while the deferred taxes related to pensions reverse over a significantly longer period and book to tax basis differences on plant assets reverse over the book life. While the reversal of the non-normalized excess ADIT is not required to be linked specifically to the book reversals giving rise to the excess deferred tax amount, the Company believes this time frame provides a reasonable manner to reverse these amounts.

Q33. When will the amortization of the excess ADIT start?

A33. In keeping with the normalization rules, the amortization of the normalized excess ADIT will start in January 2018 as the book depreciation is recorded. The non-normalized ADIT will start when the Commission determines the amortization period.

Q34. Since the final calculation of the reversal of the excess ADIT required to be normalized is not complete and an estimate is being used in place of an actual amount, how does the Company suggest to account for the difference between the estimate and the actual amount so as to avoid a normalization violation?

A34. IPL is requesting that the Commission authorize the Company to defer as a regulatory asset or regulatory liability the difference between the actual excess ADIT amortization and the amount included in rates beginning on the date rates are implemented in this proceeding

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until rates are set in a subsequent base rate proceeding. To the extent that the actual annual amortization differs from the estimated amount, the amortization of the non-normalized excess ADIT will be increased or decreased to ensure that the total amortization of normalized and non-normalized excess ADIT is equal to $8.5 million. This is the sum of the amortization of the normalized excess ADIT ($4.0 million) and the non-normalized excess ADIT ($4.5 million). This accounting treatment is necessary to ensure the Company remains in compliance with tax normalization requirements, therefore avoiding a tax normalization violation.

Q35. ~~Q23.~~ Does that include conclude your verified pre-filed direct testimony?

A35. ~~A23.~~ Yes.

INT-312. Regarding the Direct Testimony of Alan D. Felsenthal, page 18, lines 11-22 (Legal Lag Studies [sic]). In the referenced testimony, Mr. Felsenthal explains his rationale for assigning "zero lag days" to depreciation expense and deferred income tax expenses. Has Mr. Felsenthal or the Company conducted any studies or analyses to determine the actual timing of cash flows (lead and lag days) associated with the disbursement of cash collected from ratepayers for depreciation or deferred income tax expenses, for which workpapers are available?

RESPONSE: General Objections Nos. 5 (inspection of business records), 9 (vague or undefined), 13 (mischaracterization). Subject to all general objections, DP&L states that no studies or analyses were prepared to determine the actual timing of cash flows for depreciation and deferred income taxes.

Witness Responsible: Alan D. Felsenthal

INT-313. Regarding the Direct Testimony of Alan D. Felsenthal, page 19, lines 1-3 (Legal Lag Studies [sic]). In the referenced testimony, Mr. Felsenthal states: "All components of return have been given a lead of zero day as both common stockholders and debt holders are each considered as investors and as such, entitled to a daily return on 'investor supplied funds.'" Has Mr. Felsenthal or the Company conducted any studies or analyses to determine the actual timing of cash flows (lead and lag days) associated with the disbursement of cash collected from ratepayers for common equity and debt investors, or to support his "entitled to a daily return" assumption, for which workpapers are available?

RESPONSE: General Objections Nos. 5 (inspection of business records), 9 (vague or undefined), 13 (mischaracterization). Subject to all general objections, DP&L states that no study or analyses were performed to determine the actual timing of cash flows for the components of return.

Witness Responsible: Alan D. Felsenthal

INT-314. Regarding the Direct Testimony of Alan D. Felsenthal, page 19, lines 1-3 (Legal Lag Studies [sic]). In the referenced testimony, Mr. Felsenthal states: "All components of return have been given a lead of zero days as both common stockholders and debt holders are each considered as investors and as such, entitled to a daily return on 'investor supplied funds.'" What is Mr. Felsenthal's understanding of the timing of cash payments of dividends to common shareholders and the payment of interest to the Company's creditors?

RESPONSE: General Objections Nos. 6 (calls for narrative answer), 9 (vague or undefined), 13 (mischaracterization). Subject to all general objections, DP&L states investors are entitled to a daily return and it does not matter whether they are debt or equity investors. Amounts obtained from investors are not used for working capital needs unless a return is provided and including the "cost" at zero return achieves this objective.

Witness Responsible: Alan D. Felsenthal

INT-315. Regarding the Direct Testimony of Alan D. Felsenthal, page 19, lines 1-3 (Legal Lag Studies [sic]). In the referenced testimony, Mr. Felsenthal states: "All components of return have been given a lead of zero days as both common stockholders and debt holders are each considered as investors and as such, entitled to a daily return on 'investor supplied funds.'" Please explain why the timing of actual cash flows associated with the "components of return" should be ignored be ignored, in favor of the proposed "given a lead of zero day(s)" treatment recommended by Mr. Felsenthal.

RESPONSE: General Objections Nos. 6 (calls for narrative answer), 9 (vague or undefined), 13 (mischaracterization). Subject to all general objections, DP&L states that applying a lead of zero days for all elements of return recognizes that operating income (return) becomes the property of investors when earned (daily).

Witness Responsible: Alan D. Felsenthal

Commonwealth Edison Company
Cash Working Capital
Calendar Year 2016
(In Thousands)

Line No.	Description (A)		Amount (B)	Source (C)
1	Total Operating Revenues	$	2,644,388	Schedule FR A-1 REC Ln 21
2	Less: Uncollectible Accounts		-	No longer Collected in DST
3	Less: Depreciation & Amortization		(573,706)	Schedule FR A-1 REC Ln 5
4	Less: Regulatory Debits		(44,237)	Schedule FR A-1 REC Ln 8
5	Less: Pension Asset Cost Funding		(40,272)	Schedule FR A-1 REC Ln 9
6	Less Deferred Taxes and ITC		(413,971)	Page 5, Col B, Line10
7	Less: City of Chicago Dark Fiber Tax		-	N/A
8	Less: Return on Equity		(337,308)	From line 12 below * -1
9	Total Receipts for CWC calculation	$	1,234,894	Calculation
10	Rate Base	$	8,807,001	Schedule FR A-1 REC Ln 12
11	Equity Weighted Component		3.83%	Schedule FR D-1, Column D, Line 17
12	Return on Equity	$	337,308	Calculation
13	Other O & M Expenses	$	1,852,482	Schedule FR A-1 REC Ln 11
14	Payroll and Withholdings		(327,471)	Minus Line 31 below plus line 30 below
15	Inter Company Billings		(141,716)	WP3 p.7, line 16
16	Inter Company Billings - Pass throughs		(35,866)	WP3 p.7, line 31
17	Employee Benefits Expense - Pension and OPEB		(70,877)	WP3 p.3, line 15
18	Employee Benefits Expense - Other		(58,123)	From Line 33 below
19	Uncollectible Accounts		-	From line 2 above
20	Depreciation and Amortization		(573,706)	From line 3 above
21	Regulatory Debits		(44,237)	From line 4 above
22	Pension Asset Cost Funding		(40,272)	From line 5 above
23	Taxes Other than Income Taxes		(138,915)	Schedule FR A-1 REC Ln 7
24	Property Leases		(25,237)	WP3 p.6, line 7
25	Other Operations & Maintenance	$	396,062	Calculation
26	Payroll and Withholdings - Total	$	371,005	WP3 p.2 (Sch C-11.1), line 8
27	Less: Power Production		(1,393)	WP3 p.2 (Sch C-11.1), line 2
28	Less: Transmission		(42,038)	WP3 p.2 (Sch. C-11.1), line 3
29	Less: Payroll Taxes on Supply		(103)	WP3 p.4, line 15
30	Less: Net Incentive Pay		(45,718)	From line 32 below
31	Payroll and Withholdings - Distribution, Customer Accts and A&G	$	281,753	Calculation
32	Net Incentive Pay	$	45,718	WP3 p.8, line 20
33	Employee Benefits - Other	$	58,123	WP3 p.3, line 20
34	Chicago Lease Transaction Tax - Jurisdictional Amount	$	1,397	Page 4, Ln 15
35	Lead Time		-46.96	Hengtgen Testimony ComEd Ex. 7.0
36	CWC Factor		-0.12866	Line 35 / 365 Days
37	Rate Base Adjustment to ComEd Ex 1.0, App 3, Ln 36	$	(180)	Line 34 * Ln 35

Ln	Commonwealth Edison Company Cash Working Capital Information (A) Description	(B) Source	(C) Amt ($ in 000s)	(D) Lag (Lead)	2015 2016 (E) CWC Factor (D) / 365	App 3 Actual Data Projected Additions (F) CWC Requirement (C) x (E) ($ In 000s)
1	Receipts	WP 3	$1,234,894	51.33	0.14063	$173,663
	Collection of Non Revenue Non Expense Items:					
2	Energy Assistance/Renewable Energy	WP 3	$47,054	0.00	0.00000	$0
3	Gross Receipts/Municipal Utility Tax	WP 3	$265,651	0.00	0.00000	$0
4	Illinois Excise Tax	WP 3	$257,235	36.12	0.09896	$25,456
5	Infrastructure Maintenance Fee	WP 3	$90,812	36.12	0.09896	$8,987
6	Other Revenues If Any	WP 3			0.00000	$0
7	Total Revenue and Non Revenue Receipts	Sum of (Ln 1) thru (Ln 6)	1,895,646			$208,106
	Outlays					
8	Base Payroll and Withholdings	WP 3	$281,753	(15.17)	(0.04156)	($11,710)
9	Vacation Pay Expense	WP 3	$0	(15.17)	(0.04156)	$0
10	Incentive Comensation Expense	WP 3	$45,718	(235.50)	(0.64521)	($29,498)
11	Employee Benefits - Pension and OPEB	WP 3	$70,877	0.00	0.00000	$0
12	Employee Benefits - Other	WP 3	$58,123	(4.20)	(0.01151)	($669)
13	Inter Company Billings - Less Pass Thrus	WP 3	$141,716	(45.16)	(0.12373)	($17,534)
14	Inter Company Billings - Pass Thrus	WP 3	$35,866	(45.16)	(0.12373)	($4,438)
15	Property Leases	WP 3	$25,237	(23.74)	(0.06504)	($1,641)
16	Other O&M Expense	WP 3	$396,062	(75.05)	(0.20562)	($81,437)
17	Property/Real Estate Taxes	WP 3	$15,937	(336.74)	(0.92258)	($14,703)
18	FICA Contributions	WP 3	$22,904	(15.17)	(0.04156)	($952)
19	Federal Unemployment Tax	WP 3	$128	(76.50)	(0.20959)	($27)
20	State Unemployment Tax	WP 3	$404	(76.50)	(0.20959)	($85)
21	Electricity Distribution Tax	WP 3	$103,639	(30.25)	(0.08288)	($8,589)
22	State Franchise Tax	WP 3	$1,795	(193.01)	(0.52879)	($949)
23	City of Chicago Dark Fiber Tax	WP 3	$0	(46.96)	(0.12866)	$0
24	401K Match	WP 3	$0	0.00	0.00000	$0
25	State Public Utility Fund	WP 3	($7,645)	0.00	0.00000	$0
26	Illinois Sales and Use Tax	WP 3	$105	(3.28)	(0.00899)	($1)
27	Chicago Sales and Use Tax	WP 3	$247	(229.00)	(0.62740)	($155)
28	Interest Expense	WP 3	$230,743	(91.25)	(0.25000)	($57,686)
29	Current State Income Tax	WP 3	($36,800)	(38.00)	(0.10411)	$3,831
30	Current Federal Income Tax	WP 3	($153,316)	(38.00)	(0.10411)	$15,962
31	Other Outlays If Any	WP 3			0.00000	$0
	Payment of Non Revenue Non Expense Items:					
32	Energy Assistance/Renewable Energy	WP 3	$47,054	12.62	0.03458	$1,627
33	Gross Receipts/Municipal Utility Tax	WP 3	$265,651	2.23	0.00611	$1,623
34	Illinois Excise Tax	WP 3	$257,235	14.27	0.03910	$10,057
35	Infrastructure Maintenance Fee	WP 3	$90,812	(11.00)	(0.03014)	($2,737)
36	Other Outlays	WP 3	1,397			(180)
37	Total Outlays	Sum of (Ln 8) thru (Ln 36)	$1,895,646			($199,891)
38	Receipts Less Outlays	(Ln 7) - (Ln 37)	$0			
39	Accts Payable Related to CWIP	WP 3; Col D Ln 16	0	(75.05)	(0.20562)	0
40	Total CWC Requirement	(Ln 7) + (Ln 37) + (Ln 39)				$8,215
						To Sch FR B-1 Ln 16

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 533	)	Case No. 16-00276-UT
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant	)	

DIRECT TESTIMONY

OF

HENRY E. MONROY

December 7, 2016

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 16-00276-UT**

certain allocations. Please see PNM Exhibit HEM-8 for the list of locations used by the Company.

VI. LEAD-LAG STUDY

Q. PLEASE EXPLAIN WHAT "LEAD-LAG" MEANS IN THE CONTEXT OF UTILITY REGULATION AND ACCOUNTING.

A. A lead-lag study is a method used to measure the amount of cash working capital required to finance a utility's day-to-day operations. The study seeks to measure and quantify the differences in timing between the receipt of revenues from customers and the time the service is rendered (lag) and the period the utility has from the time it incurs an expense until cash is actually disbursed in payment for the expense (lead). The differences between these periods are expressed in days. The areas covered in the study include:

- Meter reading lag
- Billing lag
- Collection lag
- Fuel expense lead
- Payroll lead
- Taxes other than income lead
- Allocated charges lead
- Income taxes lead
- Other O&M leads

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 16-00276-UT**

Q. WHAT ROLE DOES THE LEAD-LAG STUDY PLAY WITH RESPECT TO PNM'S CASH WORKING CAPITAL?

A. The resulting revenue lag days and expense lead days are used to calculate the cash working capital allowance included in rate base. The calculation of the cash working capital amount is included in Rule 530 Schedule E-1. The resulting cash working capital balance developed through the lead-lag study discussed below is reasonable and is included in the Base Period and Test Period revenue requirements.

Q. WAS A LEAD-LAG STUDY CONDUCTED TO ESTABLISH THE LEAD-LAG DAYS FOR PNM'S CASH WORKING CAPITAL CALCULATION?

A. Yes. In 2016, the Company engaged PwC to conduct a lead-lag study based on data from the period of July 1, 2015 through June 30, 2016. The resulting lead-lag days were used to calculate the cash working capital allowance included in the revenue requirements. The study was performed consistent with the methodology employed in the Company's previous rate cases, including the 2015 Rate Case.

Q. HOW IS THE EXPENSE LEAD DETERMINED?

A. The expense lead is the average number of days from the time of service to the date the Company remits payment for the service to the vendor. The expense lead for each invoice is the difference between the number of days it takes for the Company's payment to the vendor to clear the bank and the mid-point date of each invoice's service period.

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 16-00276-UT**

Q. HOW IS REVENUE LAG DETERMINED?

A. The revenue lag is the average time period (calculated in days) between the period in which service is rendered to the customer and the date on which payment is received from the customer. The revenue lag is determined by calculating the meter reading lag, billing lag, and collection lag.

Meter reading lag represents the time from when the customer receives service to the day that the meter is read. Actual meter reading lag is calculated as the midpoint of the service period.

Billing lag is the period from the meter reading date until the date the customer is billed. Because the Company has three different methods of billing its electric sales, billing lag was calculated separately for each method, and the weighted average was utilized in calculating the final revenue lag days.

Collection lag is the period from the date which the customer is billed until the date the payment is received. The collection lag was calculated using the turnover approach, which is calculated by dividing the daily revenue requirement by revenue category into the average monthly accounts receivable balance by revenue category.

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 16-00276-UT**

VII. ASSET RETIREMENT OBLIGATIONS

Q. WHAT IS AN ASSET RETIREMENT OBLIGATION?

A. An ARO represents an entity's legal obligation associated with the retirement of a tangible long-lived asset.

Q. HOW ARE AROS DETERMINED?

A. The Company continuously evaluates its legal retirement obligations on long-lived assets, including commissioning independent decommissioning studies on its generation plants.

Q. IN RESPONSE TO THE DIRECTIVE IN ORDERING PARAGRAPH EE OF THE 2015 RATE CASE CORRECTED RECOMMENDED DECISION, IS PNM'S ACCOUNTING FOR THE AROS IN ACCORDANCE WITH ACCOUNTING STANDARDS?

A. Yes. PNM accounts for the AROs in accordance with GAAP, including the straight-line depreciation of the initial ARC Asset and the accretion expense associated with the ARO liabilities reflect the time value of money. I discuss these in more detail below.

DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 16-00276-UT

Q. PLEASE DESCRIBE THE APPLICABLE ACCOUNTING GUIDANCE WITH REGARD TO AROS.

A. PNM accounts for its AROs in accordance with ASC Topic 410-20, which provides guidance on asset retirement obligations and environmental remediation liabilities resulting from normal operations of long-lived assets.

Q. HOW ARE AROS TREATED FROM AN ACCOUNTING STANDPOINT?

A. If the Company determines a legal obligation exists to retire a tangible long-lived asset in the future, the Company obtains cost estimates for the retirement of the asset and the settlement of the legal obligation. Typically, these cost estimates are provided as cash flows in current dollars, which are escalated to the settlement date of the retirement obligation using an appropriate inflation rate. The escalated cash flow estimates are then discounted using the current credit adjusted risk free rate to determine the present value of the ARO. An ARO liability is recorded at the present value of the legal obligation to retire the tangible long-lived asset. A corresponding ARC Asset is capitalized by increasing the carrying amount of the related tangible long-lived asset by the same amount as the ARO liability. The ARC Asset is depreciated on a straight-line basis over the life of the retirement obligation.

If the facts and circumstances of an existing ARO change or the Company receives a new cost estimate for its AROs, both the ARO liability and ARC Asset are adjusted by recording a new ARO layer in the same manner as described above. Please refer to PNM Exhibit HEM-4 WP ORB-13 for a summary of PNM's AROs.

Q. WHAT IS ACCRETION EXPENSE AS IT RELATES TO AN ARO LIABILITY AND HOW IS IT CALCULATED?

A. Accretion expense is recorded to recognize the time value of money, with an offset recorded as an increase to the ARO liability. Accretion expense is calculated by multiplying the present value of the ARO liability by the credit adjusted risk free rate originally used to discount the escalated cash flow estimates to their present value. Please refer to PNM Exhibit HEM-4 WP ORB-11 and WP ORB-12, which include the scheduled accretion amounts as prescribed by GAAP. PNM utilized these scheduled accretion expenses to develop the linkage data and the amounts included in the Test Period. Due to the complexity of these calculations, the accretion amounts are not fully functional in the model.

VIII. COAL MINE RECLAMATION

Q. IS PNM'S COAL MINE RECLAMATION OBLIGATION CONSIDERED AN ARO?

A. No. PNM does not own the coal mines that supply coal to SJGS and Four Corners and, therefore, the coal mine reclamation obligation does not meet the definition of an ARO.

PNM Schedule E-1

Cash working capital allowance.

This schedule is also being provided electronically, see index for location.

	A	B	C	D
1	**Public Service Company of New Mexico**			
2	**Schedule E-1**			
3	**Cash Working Capital Allowance - Lead Lag Study**			
4	**Base Period Ending 6/30/2016**			
5	**Test Period Ending 12/31/2018**			
6				
7				
8	**Description**	**Revenue Lag Days**	**Lead Days**	**(Lead) Lag Days**
9				
10	Fuel:			
11	Coal	39.80	36.80	3.00
12	Nuclear	-	-	-
13	Gas	39.80	39.80	-
14	447 Sales	39.80	60.90	(21.10)
15	Economy Purchases	39.80	33.30	6.50
16	Contingent Purchases - Energy	39.80	33.30	6.50
17	Contingent Purchases - Demand	39.80	33.30	6.50
18				
19	Four Corners O&M	39.80	2.90	36.90
20	Palo Verde O&M	39.80	9.60	30.20
21	Palo Verde Lease Payment	39.80	91.20	(51.40)
22	Transmission	39.80	38.10	1.70
23	Management Fee	39.80	29.20	10.60
24	Other O&M	39.80	27.90	11.90
25				
26	Wages & Salaries	39.80	19.70	20.10
27				
28	Depreciation & Amortization			-
29				
30	Ad Valorem Property Taxes - AZ	39.80	216.50	(176.70)
31	Ad Valorem Property Taxes - NM	39.80	237.70	(197.90)
32	Native American Taxes	39.80	137.50	(97.70)
33	Payroll Taxes	39.80	21.00	18.80
34	Misc Taxes Other Than Inc Taxes	39.80	37.60	2.20
35				
36	Miscellaneous Amortizations	-	-	-
37				
38	Return on Rate Base	-	-	-
39				
40	Income Taxes - Current:			
41	Federal Current	39.80	-	39.80
42	State and Fed Deferred	-	-	-
43	State Current	39.80	-	39.80
44	ITC/Deferred Income Taxes	-	-	-
45				
46	Revenue Credits:			
47	Wheeling	39.80	70.40	(30.60)
48	Rent for Electric Property	39.80	36.80	3.00
49	Pole Rentals	39.80	36.80	3.00
50	Late Payments	39.80	36.80	3.00
51	Special Charges	39.80	36.80	3.00
52	Economy Service Customer	39.80	33.30	6.50
53				
54	Revenue Taxes I&S Fee	39.80	(87.70)	127.50
55				
56	Gross Receipts Tax	39.80	37.60	2.20
57				
58	Franchise Fees	39.80	52.10	(12.30)
59				
60				
61		Notes:		
62		Please refer to the testimony of PNM Witness Monroy		
63		for discussion of lead lag study performed.		
64	This schedule is sponsored by PNM Witness Monroy.			

Schedule E-1
Page 2 of 3

	A	B	C	D	E
1	Public Service Company of New Mexico				
2	Schedule E-1				
3	Cash Working Capital Allowance - Lead Lag Study				
4	Base Period Ending 6/30/2016				
5	Test Period Ending 12/31/2018				
6					
7					
8	Category	Lead/Lag Days	PNM Retail Adjusted Base Period	Cash Working Capital Calc	Reference
9	Total Base Fuel, Other Fuel, and Other Purchased Power				
10	Fuel-Coal	3.00	145,287,712	436,163	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, lines 221 + 222
11	Fuel-Nuclear	-	16,118,098	0	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, lines 223 + 224
12	Fuel-Gas	0.00	22,612,554	0	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, lines 225 + 226
13	Off-System Sales	(21.10)	(22,627,231)	477,435	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, lines 243
14	Purchased Power - Energy	6.50	16,261,357	105,699	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 227 - 231
15	Total		177,752,491	1,019,297	sum of lines 10-14
16					
17	O & M:				
18	Four Corners	36.90	16,290,144	601,106	Note 1
19	Palo Verde	30.20	28,439,462	858,872	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 282 - 287 + sum of lines 289 - 296
20	Palo Verde Lease Payment	(51.40)	18,782,849	(965,438)	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 288
21	Transmission	1.70	28,607,319	48,632	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 332
22	Purchased Power - Demand	6.50	27,750,068	180,375	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 251-262
23	Management Fee	10.60	60,047,656	636,505	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 390-392
24	Coal Mine Decommissioning	0.00	7,255,813	0	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 257
25	Other O&M	11.90	97,950,780	1,165,614	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 420, less line 28, less the sum of lines 18-24
26	Total Non-Fuel O&M		285,124,091	2,525,667	
27					
28	Salaries and Wages	20.10	27,069,190	544,091	PNM Exhibit HEM-4, WP LA - Labor Workpaper.xlsx; WP-LA-1, Column G, line 417 + WP LA-4, Column I, line 156 + WP LA-3, Column E, line 99
29					
30					
31	TOTAL O&M (Fuel+Non-Fuel+W&S)		489,945,771	4,089,054	Sum of lines 15, 26 and 28
32					
33	DEPRECIATION EXPENSE:	-	124,925,643	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 474
34					
35	PROPERTY TAX - AZ	(176.70)	2,158,604	(381,425)	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 482
36	PROPERTY TAX - NM	(197.90)	21,077,403	(4,171,218)	Line 35 less PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 526
37	Native American Taxes	(97.70)	2,167,700	(211,784)	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 543-545
38	Payroll taxes	18.80	6,621,134	124,477	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 532
39	MISC TAXES OTHER THAN INC:	2.20	1,650,819	3,632	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 535-542
40	Total General Taxes		33,675,661	(4,636,319)	Sum of lines 35-39
41					
42					
43	MISC ALLOWABLE EXP'S:	-	7,363,291	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 566
44					
45					
46	RETURN ON RATE BASE:	-	177,565,299	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 574
47					
48					
49	INCOME TAX:				
50	Federal Current	39.80	53,890,077	2,144,825	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 623
51	State & Fed Deferred	-	(438,653)	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 625
52	State Current	39.80	12,823,151	510,361	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 647
53	Federal Tax adjustments	-	(1,472,887)	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, lines 626 + 627
54	Total		64,801,689	2,655,186	Sum of lines 50-53
55					
56					
57	REVENUE CREDITS:				
58	Wheeling	(30.60)	(2,956,247)	90,461	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 668 - 673
59	Rent for Electric Property	3.00	(3,975,092)	(11,925)	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, lines 662 + 663
60	Late Payments	3.00	(957,188)	(2,872)	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 664
61	Special Charges	3.00	(1,890,962)	(5,673)	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, sum of lines 665- 667
62	Economy Service Customer	6.50	(4,664,591)	(30,320)	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 674 + 675
63	Total		(14,444,080)	39,672	Sum of lines 58-62
64					
65	Sub-total		883,833,275	2,147,594	Sum of lines 31-39 + line 63 + line 54 + line 46 + line 43
66					
67	Revenue Taxes - I&S Fee	127.50	4,494,937	573,105	PNM Exhibit HEM-3 - WP COS.xlsx; COS BASE, line 685
68					
69	TOTAL COST OF SERVICE:		888,328,212	2,720,698	Sum of lines 65 + 67
70					
71	Franchise Fees	(12.30)	14,011,850	(172,346)	Line 69 * 77.32% * 2.04% (Note 2)
72	Gross Receipts Tax	2.20	58,548,558	128,807	Line 69 * 92.18% * 7.15% (Note 2)
73					
74	Net NMPRC Dollar Days			2,677,159	Sum of lines 69-72
75					
76					
77	WORKING CAPITAL ALLOWANCE:			2,677,159	PNM Exhibit HEM-3 Base Adj, line 208
78					
79		Notes:			
80					
81		Note 1: Four Corners O&M is based on Company's books and records, adjusted for planned outages as reflected in PNM Exhibit HEM-4 WP OM-7.			
82		Note 2: 77.32% (franchise fees) and 92.18% (gross receipts tax) of revenues are subject to taxes. Of the 77.32% for franchise fees, 2.04% is the franchise fee rate			
83		payable by PNM. The 7.15% is the weighted average gross receipts tax rate on the 92.18% for gross receipts tax.			
84	This schedule is sponsored by PNM Witness Monroy.				

	A	B	C	D	E
1	Public Service Company of New Mexico				
2	Schedule E-1				
3	Cash Working Capital Allowance - Lead Lag Study				
4	Base Period Ending 6/30/2016				
5	Test Period Ending 12/31/2018				
6					
7					
8	Category	Lead/Lag Days	PNM Retail Test Period	Cash Working Capital Calc	Reference
9	Total Base Fuel, Other Fuel, and Other Purchased Power				
10	Fuel-Coal	3.00	122,822,604	368,468	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, lines 221 + 222
11	Fuel-Nuclear	-	25,958,028	0	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, lines 223 + 224
12	Fuel-Gas	0.00	47,152,773	0	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, lines 225 + 226
13	Off-System Sales	(21.10)	(82,932,048)	1,749,866	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, lines 243
14	Purchased Power - Energy	6.50	27,985,381	181,905	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, sum of lines 227 - 230
15	Total		140,986,737	2,300,239	sum of lines 10-14
16					
17	O & M:				
18	Four Corners	36.90	16,534,496	610,123	Note 1
19	Palo Verde	30.20	14,448,984	436,359	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, sum of lines 282 - 287 + sum of lines 289 - 296
20	Palo Verde Lease Payment	(51.40)	19,566,091	(1,005,697)	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 288
21	Transmission	1.70	35,923,394	61,070	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 332
22	Purchased Power - Demand	6.50	20,085,970	130,559	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, lines 251 + 262
23	Management Fee	10.60	63,600,614	674,167	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, sum of lines 390-392
24	Coal Mine Decommissioning	0.00	7,657,459	0	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 257
25	Other O&M	11.90	155,198,782	1,846,865	Line 28 less PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 420, less the sum of lines 18-24
26	Total Non-Fuel O&M		333,015,790	2,753,446	
27					
28	Salaries and Wages	20.10	28,877,285	580,433	PNM Exhibit HEM-4, WP LA - Labor Workpaper.xlsx; WP-LA-1, Column J, line 417 + WP LA-4, Column L, line 156 + WP LA-3, Column AP, line 99
29					
30					
31	TOTAL O&M (Fuel+Non-Fuel+W&S)		502,879,812	5,634,118	Sum of lines 15, 26 and 28
32					
33	DEPRECIATION EXPENSE:	-	131,311,805	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 474
34					
35	PROPERTY TAX - AZ	(176.70)	2,696,758	(476,517)	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 482
36	PROPERTY TAX - NM	(197.90)	23,864,397	(4,722,764)	Line 35 less PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 526
37	Native American Taxes	(97.70)	2,192,183	(214,176)	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, sum of lines 543-545
38	Payroll taxes	18.80	6,772,752	127,328	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 532
39	MISC TAXES OTHER THAN INC:	2.20	2,418,649	5,321	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, sum of lines 535-542
40	Total General Taxes		37,944,740	(5,280,809)	Sum of lines 35-39
41					
42					
43	MISC ALLOWABLE EXP'S:	-	18,160,549	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 564
44					
45					
46	RETURN ON RATE BASE:	-	178,747,208	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 574
47					
48					
49	INCOME TAX:				
50	Federal Current	39.80	63,069,015	2,510,147	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 623
51	State & Fed Deferred	-	(136,013)	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 625
52	State Current	39.80	11,260,496	448,168	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 647
53	Federal Tax adjustments	-	(619,982)	-	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, lines 626 + 627
54	Total		73,573,516	2,958,315	Sum of lines 50-53
55					
56					
57	REVENUE CREDITS:				
58	Wheeling	(30.60)	(3,094,536)	94,693	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, sum of lines 668 - 673
59	Rent for Electric Property	3.00	(3,999,210)	(11,998)	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, lines 662 + 663
60	Late Payments	3.00	(971,546)	(2,915)	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 664
61	Misc Service Charge Revenue	3.00	(1,912,733)	(5,738)	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, sum of lines 665 - 667
62	Economy Service Customer RC	6.50	(4,734,562)	(30,775)	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 674 + 675
63	Total		(14,712,587)	43,268	Sum of lines 58-62
64					
65	Sub-total		927,905,042	3,354,891	Sum of lines 31-39 + line 63 + line 54 + line 46 + line 43
66					
67	Revenue Taxes - I&S Fee	127.50	4,719,075	601,682	PNM Exhibit HEM-3 - WP COS.xlsx; COS TEST, line 685
68					
69	TOTAL COST OF SERVICE:		932,624,117	3,956,573	Sum of lines 65 + 67
70					
71	Franchise Fees	(12.30)	14,710,541	(180,940)	Line 69 * 77.32% * 2.04% (Note 2)
72	Gross Receipts Tax	2.20	61,468,043	135,230	Line 69 * 92.18% * 7.15% (Note 2)
73					
74	Net NMPRC Dollar Days			3,910,863	Sum of lines 69-72
75					
76					
77	WORKING CAPITAL ALLOWANCE:			3,910,863	PNM Exhibit HEM-3, line 208
78					
79		Notes:			
80		Note 1: Four Corners O&M is based on the adjusted base period, plus general escalation for O&M. See PNM			
81		Exhibit HEM-4 WP OM-7.			
82		Note 2: 77.32% (franchise fees) and 92.18% (gross receipts tax) of revenues are subject to taxes. Of the 77.32% for franchise fees, 2.04% is the franchise fee rate			
83		payable by PNM. The 7.15% is the weighted average gross receipts tax rate on the 92.18% for gross receipts tax.			
84		General Note: PNM identified an error in calculating Test Period Cash Working Capital during final review. The net impact of the correction			
85		result in a decrease to the Cash Working Capital of $2,282,297 and lowers the Test Period revenue requirement by $244,954.			

INTERROGATORIES

INT-510. Regarding DP&L Responses to OCC Interrogatories 108 and 109 (Customer Deposits). For what reasons should any portion of the Company's recorded Customer Deposits be attributed to any jurisdiction other than PUCO-regulated electric distribution services in determination of revenue requirements?

RESPONSE: **RESPONSE:** General Objections Nos. 1 (relevance), 2 (unduly burdensome), 5 (inspection of business records), 6 (calls for narrative answer), 9 (vague or undefined), 13 (mischaracterization). Subject to all general objections, DP&L states that $22,580,000 of the $36,200,945 in customer deposits held by the company at September 30, 2015, were provided by non-utility customers. The portion of customer deposits provided by utility customers is allocated based upon the amount of distribution customer revenues and base distribution revenues to total utility revenues for the twelve-month period ended September 30, 2015.

Witness Responsible: Don Rennix

INT-669: Regarding the Response to OCC INT-510 (Customer Deposits). In its response to INT-510, the Company states that certain of its customer deposits were "provided by non-utility customers." Please respond to the following:

a. Which customers of the Company are being referenced as "non-utility" customers in this response?

b. What are the applicable Commission rules, tariffs, statutes or other authority pursuance to which the Company collects and holds customer deposits from "non-utility" customers?

c. What amounts, if any, of the Company's customer deposits at date certain are not available as capital that can be used to support distribution service rate base investments, because they are applied or used for other business purposes?

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), 5 (inspection of business records), 11 (calls for a legal conclusion), 13 (mischaracterization). DP&L further objects because the request is unduly burdensome, and can be performed by OCC. Subject to all general objections, DP&L states:

a. The deposits classified to Account 2350003 are collateral submitted by competitive bid auction winners and competitive retail electric service providers offering electric choice.

b. The authority for these deposits includes, but is not limited to, the DP&L Tariff Sheet No. G8 and Competitive Bid documents.

c. Cash received by the Company is generally not held in reserve for specific applications. None of the deposits classified to Account 2350003 were available to support the distribution service.

Witness Responsible: Don Rennix

INT-670: Regarding the Response to OCC INT-511 (Customer Deposits). In its response to INT-511, the Company states that "the portion of customer deposits provided by utility customers is not accounted for in the revenue requirement or its net costs associated with any other rates or riders other than base distribution." [emphasis added] Please respond to the question actually asked by the OCC in INT-511, which was not restricted to customer deposits characterized by DP&L as "provided by utility customers".

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 5 (inspection of business records), 6 (calls for narrative answer), 9 (vague or undefined), 13 (mischaracterization). DP&L further objects that the question is argumentative and that the Company made its best effort to answer INT-511, which was compound, convoluted, and unclear. Subject to all general objections, DP&L states that it credited $3,743,178 in the distribution rate case revenue requirement. DP&L further states that it does not contend that it has recognized and accounted for any customer deposits in the determination of its revenue requirement or its net costs associated with any power supply or transmission related services or in the administration of any of its tariff riders or rate schedules that pertain to other than distribution services.

Witness Responsible: Don Rennix

REQUESTS FOR PRODUCTION OF DOCUMENTS

RPD-196. Please provide complete copies of all reports, studies, workpapers, prior PUCO Orders and other documents associated with your response to INT-510 or relied upon to determine that any portion of Customer Deposits should be (or have been) allocated to the determination of revenue requirements for any service other than PUCO-regulated electric distribution services.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 9 (vague or undefined). Subject to all general objections, DP&L states please see DP&L-AIR 0009221 – DP&L-AIR 0009223.

The Dayton Power and Light Company
Case No. 15-_____-EL-AIR

Customer Deposits Allocator
As of September 30, 2015

Type of Filing: Original
Type of Filing: Original

Line No. (A)	Rate/Rider (B)	2014 October	2014 November	2014 December	2015 January	2015 February	2015 March	2015 April	2015 May	2015 June	2015 July	2015 August	2015 September	Total
1	Base Distribution Customer Charge	$2,606,409	$2,596,139	$2,608,872	$2,620,946	$2,609,578	$2,614,269	$2,609,928	$2,609,562	$2,613,200	$2,610,772	$2,607,023	$2,607,794	$31,314,490
2	Base Distribution Charge	$12,451,902	$13,215,530	$16,055,295	$18,973,106	$18,038,497	$17,653,306	$13,857,759	$12,286,590	$14,030,122	$15,620,642	$16,353,678	$15,158,694	$183,695,120
3	Universal Service Rider	$3,323,080	$3,396,271	$3,931,408	$2,728,033	$2,577,374	$2,509,409	$2,101,366	$1,900,582	$2,169,171	$2,407,825	$2,491,425	$2,333,138	$31,869,082
4	Excise Tax Rider	$3,591,144	$3,704,773	$4,284,042	$5,030,050	$4,765,972	$4,650,355	$3,870,526	$3,478,825	$3,971,236	$4,444,060	$4,601,738	$4,310,144	$50,702,865
5	Base Generation Charge	$10,919,134	$11,178,741	$12,644,461	$10,860,319	$6,247,361	$6,118,222	$5,038,677	$4,561,321	$5,414,828	$6,194,048	$6,518,733	$5,931,486	$91,627,330
6	Storm Charge	$0	$0	$0	$1,861,931	$1,871,628	$1,873,787	$1,870,080	$1,869,581	$1,872,029	$1,869,803	$1,867,284	$1,867,963	$16,824,105
7	Energy Efficiency Rider	$3,581,519	$3,680,249	$4,228,420	$5,020,748	$4,769,412	$4,628,615	$3,859,493	$3,472,197	$3,969,502	$4,431,338	$4,599,763	$4,295,581	$50,536,838
8	Alt Energy Rider	$180,501	$192,397	$284,617	$349,317	$337,414	$103,266	$77,874	$65,788	($93,708)	($106,988)	($113,639)	$120,361	$1,397,201
9	PJM RPM Rider	$679,213	$738,221	$629,332	$350,153	$335,556	$412,850	$302,309	$254,302	($12,108)	($13,886)	($14,617)	$176,833	$3,838,159
10	TCRR-B Rider	$626,521	$666,346	$94,164	$50,866	$48,361	$317,881	$239,412	$202,670	$1,165,476	$1,331,597	$1,415,875	$255,335	$6,414,505
11	Economic Development Rider	$474,248	$899,484	$1,100,610	$1,327,751	$1,254,055	$1,219,747	$958,888	$101,340	$119,246	$136,516	$143,273	$131,027	$7,866,185
12	Fuel Rider	$7,107,687	$7,587,500	$9,257,690	$6,136,316	$5,901,203	$5,031,083	$3,774,416	$3,180,204	$3,523,712	$4,029,370	$4,284,814	$3,839,481	$63,655,477
13	Reconciliation Rider Nonbypassable	$2,264,048	$2,295,682	$419,710	$493,390	$470,632	$2,299,570	$1,999,359	$1,832,222	$432,806	$483,710	$500,485	$471,968	$13,963,583
14	TCRR-Nonbypassable	$5,109,740	$5,227,205	$5,727,426	$6,475,264	$6,222,275	$6,131,976	$5,291,880	$4,979,972	$5,224,876	$5,640,026	$5,835,965	$5,548,481	$67,415,085
15	Competitive Bid Rate	$1,387,123	$1,444,759	$1,705,737	$8,152,734	$14,717,385	$14,339,330	$11,332,024	$9,917,662	$11,809,976	$13,485,862	$14,263,298	$12,909,209	$115,465,100
16	Service Stability Rider	$8,356,303	$8,449,104	$9,087,267	$10,307,289	$9,837,264	$9,620,200	$8,526,284	$8,016,836	$9,037,335	$9,920,312	$10,258,481	$9,712,321	$111,128,996
17	Competitive Bid True-Up Rider	$176,301	$188,235	$55,329	$68,303	$65,914	$425,666	$318,854	$268,494	$2,291,678	$2,618,476	$2,782,994	($399,223)	$8,861,023
18	Total	$62,834,873	$65,460,639	$72,114,382	$80,808,516	$80,069,882	$79,949,532	$66,029,129	$58,998,149	$67,539,376	$75,103,482	$78,396,573	$69,270,613	$856,575,144
19														
20	Standard Service Offer (SSO) Customers	$62,834,873	$65,460,639	$72,114,382	$80,808,516	$80,069,882	$79,949,532	$66,029,129	$58,998,149	$67,539,376	$75,103,482	$78,396,573	$69,270,613	$856,575,144
21	Swtiched Customers	$41,758,393	$43,464,438	$47,443,049	$54,838,507	$52,416,688	$53,201,234	$44,945,562	$40,547,708	$43,439,522	$47,565,003	$49,259,114	$46,437,131	$565,316,350
22														
23														
24	% of Base Distribution Charge SSO	23.96%	24.15%	25.88%	26.72%	25.79%	25.35%	24.94%	25.25%	24.64%	24.28%	24.19%	25.65%	25.10%
25	% of Base Distribution Charge Switched	36.06%	36.38%	39.34%	39.38%	39.39%	38.10%	36.64%	36.74%	38.31%	38.33%	38.49%	38.26%	38.03%
26														
27	Standard Service Offer (SSO) Customers	$11,104,912												
28	Swtiched Customers	$2,516,033												
29														
30	Standard Service Offer (SSO) Customers	$2,787,453												
31	Swtiched Customers	$956,935												
32														
33	Total Customer Deposits	$36,200,945												
34														
35	Customer Deposits Allocator	10.34%	10.34%											

General Ledger

Dollars bv month
DPL SET OF BOOKS
Current Period: SEP-15

Currency: USD

COMPANY=C1 (DP&L CONSOLIDATED), BUSINESS EQUIPMENT TYPE=T (TOTAL), RESOURCE=T (TOTAL), AREA ORIGINATING=T (TOTAL), LOCATION=T (TOTAL), PROJECT BUDGET NUMBER=T (TOTAL), ACTIVITY=T (TOTAL), FUTURE=T (TOTAL)

CO ACCT	BET RES TO FRO					----BALAN	CES----						
		OCT 14 Actual	NOV-14 Actual	DEC-14 Actual	JAN-15 Actual	FEB-15 Actual	MAR-15 Actual	APR-15 Actual	MAY-15 Actual	JUN-15 Actual	JUL-15 Actual	AUG-15 Actual	SEP-15 Actual
AREA													
2350001	000	-13,041,390	-13,014,643	-12,976,392	-12,926,590	-13,035,441	-13,128,698	-13,205,483	-13,230,046	-13,404,238	-13,533,237	-13,611,161	-13,620,945
2350001	502	0	0	0	0	0	0	0	0	0	0	0	0
2350003	502	-20,723,000	-20,723,000	-20,723,000	-2,223,000	-2,223,000	-2,223,000	-2,059,000	-2,059,000	-2,059,000	-2,059,000	-2,109,000	-21,809,000
2350003	507	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000
TOTAL		-34,535,390	-34,508,643	-34,470,392	-15,920,590	-16,029,441	-16,122,698	-16,035,483	-16,060,046	-16,234,238	-16,363,237	-16,491,161	-36,200,945

CUSTOMER DEPOSITS BY TYPE
AS OF: 10/1/2015

TYPE	TOTAL	COUNT
RESIDENTI/	9394074	65747
NON-RESIC	1555769	4456
RESIDENTI/	90470	669
NON-RESIC	64599	70
RESIDENTI/	1650389	28518
NON-RESIC	865644	3699
	13,620,945	103,159

From: Alan O'Meara
Sent: Thursday, December 31, 2015 6:27:36 PM (UTC) Coordinated Universal Time
To: john.berringer@puc.state.oh.us
Cc: DP&L15-1830-EL-AIR@puc.state.oh.us; DPL DRC Discovery
Subject: RE: DR#16 - Date Certain Customer Deposit Amount - Due 12/30/2015

Attached, please find DP&L's response to PUCO Staff DR #16.

Thank you,

Alan O'Meara
Regulatory Operations
The Dayton Power & Light Company
1065 Woodman Dr
Dayton, OH 45432
(937) 259-7826

From: john.berringer@puc.state.oh.us [john.berringer@puc.state.oh.us]
Sent: Wednesday, December 16, 2015 4:06 PM
To: Nathan Parke; Claire Hale; Alan O'Meara; Tyler Teuscher; Michael Schuler; JSharkey@ficlaw.com; CFaruki@ficlaw.com
Cc: DP&L15-1830-EL-AIR@puc.state.oh.us
Subject: DR#16 - Date Certain Customer Deposit Amount - Due 12/30/2015

Please provide Staff with the following:

- Records from Company ledger that support the date certain customer deposit amount of $36,200,945 listed on Schedule C-3.15.

John L. Berringer
Public Utilities Commission of Ohio

Rates and Analysis Department
Research and Policy Division
Utility Specialist
(614) 466-8232
PUCO.ohio.gov

PUCO Staff Data Request #16
Case No. 15-1830-EL-AIR
DP&L Distribution Rate Case

From:	John Berringer
To:	DP&L
Date Sent:	12/16/2015

Please provide Staff with the following:

1. Records from Company ledger that support the date certain customer deposit amount of $36,200,945 listed on Schedule C-3.15.

   Response: See attached PUCO DR 16-01 Attachment 1, a report of the General Ledger balance in subaccounts of FERC Account 235.

   Witness Responsible: Don Rennix

General Ledger

Dollars by month
DPL SET OF BOOKS
Current Period: SEP-15

Currency: USD

COMPANY=C1 (DP&L CONSOLIDATED), BUSINESS EQUIPMENT TYPE=T (TOTAL), RESOURCE=T (TOTAL), AREA ORIGINATING=T (TOTAL), LOCATION=T (TOTAL), PROJECT BUDGET NUMBER=T (TOTAL), ACTIVITY=T (TOTAL), FUTURE=T (TOTAL)

CO ACCT	BET RES TO FRO	OCT-14 Actual	NOV-14 Actual	DEC-14 Actual	JAN-15 Actual	FEB-15 Actual	MAR-15 Actual	APR-15 Actual	MAY-15 Actual	JUN-15 Actual	JUL-15 Actual	AUG-15 Actual	SEP-15 Actual
AREA													
2350001	000	-13,041,390	-13,014,643	-12,976,392	-12,926,590	-13,035,441	-13,128,698	-13,205,483	-13,230,046	-13,404,238	-13,533,237	-13,611,161	-13,620,945
2350001	502	0	0	0	0	0	0	0	0	0	0	0	0
2350003	502	-20,723,000	-20,723,000	-20,723,000	-2,223,000	-2,223,000	-2,223,000	-2,059,000	-2,059,000	-2,059,000	-2,059,000	-2,109,000	-21,809,000
2350003	507	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000	-771,000
TOTAL		-34,535,390	-34,508,643	-34,470,392	-15,920,590	-16,029,441	-16,122,698	-16,035,483	-16,060,046	-16,234,238	-16,363,237	-16,491,161	-36,200,945

INT-126. Regarding Schedule C-2.1, page 1, line 9 (Forfeited Discounts). For what reasons has the Company attributed only 27.92% of its proposed test year total utility Forfeited Discounts revenues to PUCO jurisdictional revenue requirement?

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 5 (inspection of business records), 6 (calls for narrative answer). Subject to all general objections, DP&L states that a portion of the Forfeited Discounts revenues was allocated to the PUCO jurisdictional revenue requirement based on the ratio of jurisdictional Forfeited Discounts during the 12-months ended September 2015 to the total Forfeited Discounts during the period as shown on Schedule B-7.1. The calculation of the jurisdictional allocation factor is provided in response to RPD-42. Please see DP&L-AIR 0003207.

Witness Responsible: Kurt Tornquist

RPD-42. Please provide complete copies of all studies, reports, analyses, workpapers and other documents associated with or supportive of your response to INT-126.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 9 (vague or undefined). Subject to all general objections, DP&L states that it will produce responsive unprivileged documents. Please see DP&L-AIR 0003207.

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR

Late Payment Charge Allocator
As of September 30, 2015
OCC Fifth Set RPD-42 Attachment 1

Type of Filing: Original
Type of Filing: Original

Line No. (A)	Rate/Rider (B)	2014 October	2014 November	2014 December	2015 January	2015 February	2015 March	2015 April	2015 May	2015 June	2015 July	2015 August	2015 September	Total
1	Base Distribution Customer Charge	$2,606,409	$2,596,139	$2,608,872	$2,620,946	$2,609,578	$2,614,289	$2,609,928	$2,609,562	$2,613,200	$2,610,772	$2,607,023	$2,607,794	$31,314,490
2	Base Distribution Charge	$12,451,902	$13,215,530	$16,055,295	$18,973,106	$18,038,497	$17,653,306	$13,857,759	$12,286,590	$14,030,122	$15,620,642	$16,353,678	$15,158,694	$183,695,120
3	Universal Service Rider	$3,323,080	$3,396,271	$3,931,408	$2,728,033	$2,577,374	$2,509,409	$2,101,366	$1,900,582	$2,169,171	$2,407,825	$2,491,425	$2,333,138	$31,869,082
4	Excise Tax Rider	$3,591,144	$3,704,773	$4,284,042	$5,030,050	$4,765,972	$4,650,355	$3,870,526	$3,478,825	$3,971,236	$4,444,060	$4,601,738	$4,310,144	$50,702,865
5	Base Generation Charge	$10,919,134	$11,178,741	$12,644,461	$10,860,319	$6,247,361	$6,118,222	$5,038,677	$4,561,321	$5,414,828	$6,194,048	$6,518,733	$5,931,486	$91,627,330
6	Storm Charge	$0	$0	$0	$1,861,931	$1,871,628	$1,873,787	$1,870,080	$1,869,581	$1,872,029	$1,869,803	$1,867,284	$1,867,983	$16,824,105
7	Energy Efficiency Rider	$3,581,519	$3,680,249	$4,228,420	$5,020,748	$4,769,412	$4,628,615	$3,859,493	$3,472,197	$3,969,502	$4,431,338	$4,599,763	$4,295,581	$50,536,838
8	Alt Energy Rider	$180,501	$192,397	$284,617	$349,317	$337,414	$103,266	$77,874	$65,788	($93,708)	($106,988)	($113,639)	$120,361	$1,397,201
9	PJM RPM Rider	$679,213	$738,221	$629,332	$350,153	$335,556	$412,850	$302,309	$254,302	($12,108)	($13,886)	($14,617)	$176,833	$3,838,159
10	TCRR-B Rider	$626,521	$666,346	$94,164	$50,866	$48,361	$317,881	$239,412	$202,670	$1,165,476	$1,331,597	$1,415,875	$255,335	$6,414,505
11	Economic Development Rider	$474,248	$899,484	$1,100,610	$1,327,751	$1,254,055	$1,219,747	$958,888	$101,340	$119,246	$136,516	$143,273	$131,027	$7,666,185
12	Fuel Rider	$7,107,687	$7,587,500	$9,257,690	$6,138,316	$5,901,203	$5,031,083	$3,774,416	$3,180,204	$3,523,712	$4,029,370	$4,284,814	$3,839,481	$63,655,477
13	Reconciliation Rider Nonbypassable	$2,264,048	$2,295,682	$419,710	$493,390	$470,632	$2,299,570	$1,999,359	$1,832,222	$432,806	$483,710	$500,485	$471,968	$13,963,583
14	TCRR-Nonbypassable	$5,109,740	$5,227,205	$5,727,426	$6,475,264	$6,222,275	$6,131,976	$5,291,880	$4,979,972	$5,224,876	$5,640,026	$5,835,965	$5,548,481	$67,415,085
15	Competitive Bid Rate	$1,387,123	$1,444,759	$1,705,737	$8,152,734	$14,717,385	$14,339,330	$11,332,024	$9,917,662	$11,809,976	$13,485,862	$14,263,298	$12,909,209	$115,465,100
16	Service Stability Rider	$8,356,303	$8,449,104	$9,087,267	$10,307,289	$9,837,264	$9,620,200	$8,526,284	$8,016,836	$9,037,335	$9,920,312	$10,258,481	$9,712,321	$111,128,996
17	Competitive Bid True-Up Rider	$176,301	$188,235	$55,329	$68,303	$65,914	$425,666	$318,854	$268,494	$2,291,678	$2,618,476	$2,782,994	($399,223)	$8,861,023
18	Total	$62,834,873	$65,460,639	$72,114,382	$80,808,516	$80,069,882	$79,949,532	$66,029,129	$58,998,149	$67,539,376	$75,103,482	$78,396,573	$69,270,613	$856,575,144
19														
20	Standard Service Offer (SSO) Customers	$62,834,873	$65,460,639	$72,114,382	$80,608,516	$80,069,882	$79,949,532	$66,029,129	$58,998,149	$67,539,376	$75,103,482	$78,396,573	$69,270,613	$856,575,144
21	Swtiched Customers	$41,758,393	$43,464,438	$47,443,049	$54,838,507	$52,416,688	$53,201,234	$44,945,562	$40,547,708	$43,439,522	$47,565,003	$49,259,114	$46,437,131	$565,316,350
22														
23														
24	% of Base Distribution Charge SSO	23.96%	24.15%	25.88%	26.72%	25.79%	25.35%	24.94%	25.25%	24.64%	24.28%	24.19%	25.65%	25.10%
25	% of Base Distribution Charge Switched	36.06%	36.38%	39.34%	39.38%	39.39%	38.10%	36.64%	36.74%	38.31%	38.33%	38.49%	38.26%	38.03%
26														
27	Standard Service Offer (SSO) Customers	$2,371,993	CSS Query #											
28	Swtiched Customers	$661,879	CSS Query #											
29														
30	Standard Service Offer (SSO) Customers	$2,370,335	Ratio to match GL											
31	Swtiched Customers	$661,417	Ratio to match GL											
32														
33	Standard Service Offer (SSO) Customers	$594,980												
34	Swtiched Customers	$251,560												
35														
36	Total Late Payment Charge	$3,031,752												
37														
38	Late Payment Charge Allocator	27.92%												

INT-127. Ref: Schedule C-2.1, page 1, line 9 (Forfeited Discounts). Has the Company attributed any of its test year Forfeited Discounts revenues to any regulatory jurisdiction [other than] PUCO-regulated distribution services for ratemaking purposes in a rate change application submitted to the FERC or any other regulatory authority?

RESPONSE: General Objection No. 1 (relevance). Subject to all general objections, DP&L states that there have been no rate change applications submitted to the FERC that included an assignment of Forfeited Discount revenues to a regulatory jurisdiction other than PUCO regulated distribution services.

Witness Responsible: Kurt Tornquist

INT-516. Regarding Response to OCC Interrogatory 126; RPD-42 DP&L-AIR 0003207 (Forfeited Discounts Allocation) Does the Company contend that, in reconciling costs or determining rate levels and revenues for any of the Riders and Charge items listed at lines 3 through 17 of OCC Fifth Set RPD-42, Attachment 1, the Company has recognized as a reduction to eligible recoverable costs (and needed rate levels) any forfeited discount revenues?

RESPONSE: General Objections Nos. 6 (calls for narrative answer), 9 (vague or undefined), 13 (mischaracterization). Subject to all general objections, DP&L states that the riders and charges listed on lines 3 through 17 of OCC Fifth Set RPD-42, Attachment 1, DP&L-AIR 0003207, do not reduce eligible recoverable costs for forfeited discount revenue.

Witness Responsible: Kurt Tornquist

INT-497. Regarding Schedule C-2.1, page 4, line 6; Schedule C-7, line 29 (Miscellaneous General Expenses). What are the monthly expense amounts by payee of each test year non-labor expense element contained within the $4,800,603 of total company expense proposed by the Company in Account 930.2 (prior to jurisdictional allocation)?

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 4 (proprietary), 5 (inspection of business records), 9 (vague and undefined), 10 (possession of DP&L's unregulated affiliate). Subject to all general objections, DP&L states please see OCC 8th Set INT-497 Attachment 1, DP&L-AIR 0007320 - DP&L-AIR 0007321 - CONFIDENTIAL. Please note that the total provided on this attachment has been reduced by $829,429 to account for items inadvertently included in the test year. Eliminating these items results in a $329,774 reduction to the revenue requirement. DP&L agrees to this reduction.

Witness Responsible: Craig Forestal

OBJECTIONS AND RESPONSES TO INTERROGATORIES

INT-715. In December 2017, the federal "Tax Cuts and Jobs Act," (*see www.congress.gov/bill/115th-congress/house-bill/1/titles*) became law.

a) Has the Company prepared any analyses of the impact of the Tax Cuts and Jobs Act upon its asserted rate base, income tax expense, or overall revenue requirement in Case No. 15-1830-EL-AIR? If so, please describe any such analyses, including the conclusions of such analyses regarding the impact upon rate base, income tax expense, or overall revenue requirement.

b) Describe each revised Case No. 15-1830-EL-AIR Schedule, Workpaper and each report, analyses, calculation, projection and other document associated with any affirmative response to part (a).

c) Which of the line items appearing in the Company's filed WPC-4.1 require revision in order to fully reflect the impact of the Tax Cuts and Jobs Act upon test year asserted revenue requirements?

d) What specific provisions within the Tax Cuts and Jobs Act support revising the line items described in your response to part (c)?

e) What are the revised amounts that should be utilized for each line item specified in your response to part (c) and how were such amounts determined?

f) Which of the line items appearing in the Company's filed WPB-6a require revision in order to fully reflect the impact of the Tax Cuts and Jobs Act upon test year asserted revenue requirements?

g) What specific provisions within the Tax Cuts and Jobs Act support revising the line items described in your response to part (f)?

h) What are the revised amounts that should be utilized for each line item specified in your response to part (f) and how were such amounts determined?

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), 4 (proprietary), 5 (inspection of business records), 6 (calls for narrative answer), 7 (not in DP&L's possession or available on PUCO website), 9 (vague or undefined), 11 (calls for a legal conclusion), 12 (seeks information that DP&L does not know at this time), 13 (mischaracterization). DP&L further objects because the request seeks information that is privileged and work product, the request is unduly burdensome, and can be performed by OCC.

INT-716 Reference: Direct Testimony of Stephen Allamanno, page 6. (Income Tax Expenses). At page 6, Mr. Allamanno states that the Company's asserted income tax expense amounts in Schedules C-4 and C-4.1 are based upon a calculation that, "...utilized the most recent available Federal, State and Municipal tax rates and apportionment factors." Does the Company agree that significant revisions to the referenced schedules are now required in order to continue to utilize the most recent available federal corporate income tax rates and associated federal income tax regulations, upon enactment of the Tax Cuts and Jobs Act? Please explain with specificity and quantify each of the changes that are needed to each line of the referenced schedules and related workpapers.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), 4 (proprietary), 6 (calls for narrative answer), 7 (not in DP&L's possession or available on PUCO website), 9 (vague or undefined), 11 (calls for a legal conclusion), 12 (seeks information that DP&L does not know at this time), 13 (mischaracterization). DP&L further objects because the request seeks information that is privileged and work product, the request is unduly burdensome, and can be performed by OCC.

INT-717. Reference: DP&L Workpaper B-6a (Accumulated Deferred Income Taxes). Has the Company performed any analyses of its recorded Accumulated Deferred Income Tax balances or its Deferred Federal Income Tax Credit balances at December 31, 2017, in order to determine the amounts of previously recorded deferred income taxes at higher effective corporate federal income tax rates now represent "excess" accumulated deferred income taxes under the Tax Cuts and Jobs Act, that should be returned to DP&L ratepayers pursuant to the Average Rate Assumption Method or any other method of normalization accounting? If so, please describe any such analyses and the conclusions drawn from such analyses.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), 4 (proprietary), 5 (inspection of business records), 6 (calls for narrative answer), 7 (not in DP&L's possession or available on PUCO website), 9 (vague or undefined), 11 (calls for a legal conclusion), 12 (seeks information that DP&L does not know at this time), 13 (mischaracterization). DP&L further objects because the request seeks information that is privileged and work product, the request is unduly burdensome, and can be performed by OCC.

OBJECTIONS AND RESPONSES TO REQUESTS FOR PRODUCTION OF DOCUMENTS

RPD-303. Provide complete copies of all reports, analyses, projections, workpapers and other documents associated with or supportive of your response to Interrogatory 715.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), 4 (proprietary), 7 (not in DP&L's possession or available on PUCO website), 9 (vague or undefined), 11 (calls for a legal conclusion), 12 (seeks information that DP&L does not know at this time). DP&L further objects because the request seeks information that is privileged and work product.

RPD-304. Provide complete copies of all reports, analyses, projections, workpapers and other documents associated with or supportive of your response to Interrogatory 716.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), 4 (proprietary), 7 (not in DP&L's possession or available on PUCO website), 9 (vague or undefined), 11 (calls for a legal conclusion), 12 (seeks information that DP&L does not know at this time). DP&L further objects because the request seeks information that is privileged and work product.

RPD-305. Please provide complete copies of all reports, calculations, analyses and other documents associated with or supportive of any affirmative response to Interrogatory 717, indicating the revised Workpaper B-6a amounts involved and the appropriate negative expense amount needed to prospectively amortize excess ADIT amounts.

RESPONSE: General Objections Nos. 1 (relevance), 2 (unduly burdensome), 3 (privileged and work product), 4 (proprietary), 7 (not in DP&L's possession or available on PUCO website), 9 (vague or undefined), 11 (calls for a legal conclusion), 12 (seeks information that DP&L does not know at this time). DP&L further objects because the request seeks information that is privileged and work product.

Respectfully submitted,

/s/ Michael J. Schuler
Michael J. Schuler (0082390)
THE DAYTON POWER AND
LIGHT COMPANY
1065 Woodman Drive
Dayton, OH 45432
Telephone: (937) 259-7358
Telecopier: (937) 259-7178
Email: michael.schuler@aes.com

/s/ Jeffrey S. Sharkey
Jeffrey S. Sharkey (0067892)
(Counsel of Record)
D. Jeffrey Ireland (0010443)
Christopher C. Hollon (0086480)
FARUKI IRELAND COX
RHINEHART & DUSING P.L.L.
110 North Main Street, Suite 1600
Dayton, OH 45402
Telephone: (937) 227-3705
Telecopier: (937) 227-3717
Email: jsharkey@ficlaw.com
djireland@ficlaw.com
chollon@ficlaw.com

Attorneys for The Dayton Power
and Light Company