

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

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

SUPPLEMENTAL DIRECT TESTIMONY
OF FRANK J. SALATTO

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

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO
SUPPLEMENTAL DIRECT TESTIMONY
OF FRANK J. SALATTO
ON BEHALF OF
THE DAYTON POWER AND LIGHT COMPANY

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1 **I. INTRODUCTION**

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

3 A. My name is Frank J. Salatto. I am employed by AES U.S. Services, LLC, the service
4 company of The Dayton Power & Light Company ("DP&L" or "Company"). My
5 business address is One Monument Circle, Indianapolis, Indiana 46204.

6 **Q. Did you previously file testimony in this case?**

7 A. No. However, due to changes in personnel, I am adopting the previously filed Direct
8 Testimony of Steven A. Allamanno.

9 **Q. What is your position with AES US Services, LLC?**

10 A. My title is Director, US Tax Reporting. My primary responsibilities are related to the
11 regulated utilities of AES Corporation, including DP&L.

12 **Q. Please describe your duties as Director, US Tax Reporting.**

13 A. I manage all aspects of federal and state income, property, sales and use tax for the
14 regulated businesses, including DP&L. I work closely with the accounting, finance,
15 legal, regulatory operations and development teams.

16 **Q. Please summarize your educational and professional qualifications.**

17 A. I hold a Bachelor of Science degree in Accounting from the University of Maryland and
18 have passed the Certified Public Accountant exam. I have over 25 years of experience in
19 income taxes and tax accounting, primarily with regulated electric utilities. I previously
20 worked for Pepco Holdings, Inc. ("PHI") and its predecessors in various levels of

1 responsibility including as Manager of Income and Regulatory Tax Accounting and
2 Reporting. My particular area of focus was in PHI's regulated utilities – Pepco,
3 Delmarva Power and Light and Atlantic City Electric. In that role, I was responsible for
4 the tax accounting, filing of tax returns and the development and defense of PHI's tax
5 positions before the IRS and the state.

6 **Q. Have you previously testified before the Public Utility Commission of Ohio**
7 **("PUCO" or "Commission") or other regulatory agencies?**

8 A. I have not testified before the PUCO. However, I have testified before utility
9 commissions in Maryland, the District of Columbia and Delaware in a variety of cases
10 regarding the provision of taxes for Pepco and Delmarva Power and Light.

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

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

- 14 1. Objection to the Staff's calculation of the Property Tax Expense -
15 Jurisdictional Adjustment as proposed in the Staff Report
- 16 2. Objection to the Property Tax Expense - Average Property Tax Rate as
17 proposed in the Staff Report
- 18 3. Objection to the Staff's failure to adjust rate-base deferred taxes within
19 Other Rate Base Items to reflect the proposed adjustments to Plant and
20 Equipment

4. Objection to the Staff's proposed adjustments to rate-base deferred taxes
for Accrued Bonus within Other Rate Base Items

5. Objection to the Staff's proposed adjustments to rate-base deferred taxes
for Pension Asset within Other Rate Base Items

Q. What Schedule(s) and Workpapers are you supporting?

A. I am supporting Supplemental Exhibit FJS - 1, Supplemental Exhibit FJS - 2,
Supplemental WPC-3.9a - 1 and Supplemental WPC-3.9a - 2.

II. OBJECTIONS

**Q. Please explain DP&L Objection No. 29 to the Staff Report regarding the
Jurisdictional Adjustment in property tax expense.**

A. DP&L objects to the Staff's calculation of the Jurisdictional Adjustment of property tax
expense because the Staff included accounts associated with Wright Patterson Air Force
Base ("WPAFB") in their calculations, resulting in a duplication. WPAFB is a federal
government installation that is not taxed under Ohio property tax laws, and therefore was
excluded from the assessed value shown on DP&L WPC-3.9b. The "Estimated
Valuation Percentage" on WPC-3.9b was then calculated using this assessed value
divided by gross plant in service. This percentage therefore effectively already removes
WPAFB plant when applied to DP&L's gross plant in service. As this percentage flows
to Line 7 on DP&L WPC-3.9a and is applied to gross plant in service at the date certain,
the resulting "Property Valuation" on Line 8 also excludes WPAFB. Consequently, the
"Total Property Taxes – Pre-jurisdictional Plant" on DP&L WPC-3.9a already excludes

1 property tax expense related to WPAFB. Therefore, WPAFB should not once again be
2 removed through the Staff's Jurisdictional Adjustment because doing so duplicates the
3 exclusion of WPAFB from the total Jurisdictional Property Tax amount, and as a result,
4 understates DP&L's true jurisdictional property tax expense.

5 Company Witness Rennix is proposing and supporting an updated jurisdictional net plant
6 in service. If the Commission accepts the Company's supplemental jurisdictional net
7 plant in service, then WPAFB should once again be excluded from the corresponding
8 Jurisdictional Adjustment to property tax expense, as DP&L calculated in its Application.

9 **Q. Please explain DP&L Objection No. 30 to the Staff Report regarding the Average**
10 **Property Tax Rate in property tax expense.**

11 A. The Staff erred in its adjustment to Property Tax Expense by not using the latest Average
12 Property Tax Rate within the test year of 8.708%.

13 **Q. Is it appropriate to use this property tax rate?**

14 A. Yes. The 8.708% property tax rate reflects 2015 property taxes that were paid in 2016;
15 thus, they were expenses that were incurred during the test year.

16 **Q. Do you believe there is a reason Staff did not use the latest data?**

17 A. Yes, in providing Staff with this information as part of the discovery process, the
18 Company inadvertently labeled a supplemental data response "52-02 Attachment 2"
19 instead of "52-02 Attachment 7." This response to Staff contained the latest Average
20 Property Tax Rate, but because it was mislabeled it likely resulted in confusion and this
21 error.

1 **Q. What is the result of correcting for the duplicative WPAFB adjustment and**
2 **updating to the most recent property tax rate?**

3 A. Updating Staff's Workpaper only for those two corrections results in a property tax
4 adjustment of (\$1,233,606) as compared to Staff's proposed adjustment of (\$3,144,396).
5 My attached, supporting Workpaper reflects this correction (Supplemental WPC-3.9a -
6 1). Additionally, I have included a second Workpaper (Supplemental WPC-3.9a - 2),
7 which reflects the Company's position discussed in Witness Rennix's testimony along
8 with the corrected Jurisdictional Adjustment and the Average Property Tax Rate.

9 **Q. If the Commission accepts the Staff Recommendation and rejects DP&L Objections**
10 **Nos. 29 and 30, what would be the result?**

11 A. If the Commission accepts the Staff Recommendation and rejects DP&L Objections
12 Nos. 29 and 30, then the Company would under-collect property tax costs on its
13 distribution assets by \$1,910,790 (\$3,144,396 proposed by Staff less \$1,233,606 shown
14 on Supplemental WPC C-3.9a - 1). If the Commission accepts Objection Nos. 2-12
15 regarding the adjusted rate base amounts discussed by Company Witness Rennix, then
16 the Company's property tax adjustment should be \$3,471,779 (\$3,144,396 proposed by
17 Staff plus \$327,383 shown on Supplemental WPC C-3.9a - 2).

18 **Q Please explain DP&L Objection No. 14 to the Staff Report regarding rate base**
19 **deferred taxes on plant and equipment.**

20 A. DP&L's Application demonstrated a Net Plant in Service amount of \$836.8 million on
21 DP&L Schedule B-1. The Staff Report recommends a Net Plant in Service amount of

1 \$827.6 million on Staff Schedule B-1. The Supplemental Testimony of DP&L witness
2 Rennix demonstrates that a number of Staff's proposed reductions are inappropriate.

3 However, where and to the extent that Staff proposes to reduce the Company's net plant
4 in service amount, Staff has not(p. 8) made a corresponding change to the rate base
5 deferred taxes related to the book / tax differences on Plant and Equipment. Staff's
6 proposed rate base reduction would result in a decrease to the deferred tax credit balances
7 for plant and equipment of \$2,007,640. If the Commission accepts Company Witness
8 Rennix's proposal, then the Company's rate base adjustment would result in an increase to
9 the deferred tax credit balances for plant and equipment by \$40,714 from the amount
10 included in the Company's original filing.

11 **Q. What methodology was used to calculate the effect of rate base adjustments on**
12 **deferred taxes?**

13 A. This amount is calculated by using the Company's filed Accumulated Deferred Income
14 Taxes – PPE, excluding Kentucky income tax, divided by Net Plant to develop a ratio of
15 plant related deferred taxes to net plant. This ratio is then applied to the net disallowance
16 proposed by Staff to derive the related adjustment to deferred taxes in rate base.

17 **Q. If the Commission accepts the Staff Recommendation and rejects DP&L Objection**
18 **No. 14, what would be the result?**

19 A. If the Commission accepts the Staff Recommendation and rejects DP&L Objection
20 No. 14, then the Company's rate base would be understated by 2,007,640.

1 **Q. Please explain DP&L Objection No. 15 to the Staff Report regarding rate base**
2 **deferred taxes on Accrued Bonus.**

3 A. Company Witness Tregenza is recommending that the Commission reject the Staff's
4 proposal to eliminate a portion of the accrued bonus related to financial metrics of the
5 Company's short-term compensation. If the Commission rules in favor of the Company,
6 then there should be corresponding increases to jurisdictional deferred tax debits of
7 \$232,595.

8 **Q. Please explain DP&L Objection No. 16 to the Staff Report regarding rate base**
9 **deferred taxes on the Pension Asset.**

10 A. Company Witness Kunz is recommending that the Commission reject the Staff's proposal
11 to eliminate the pension asset from rate base. If the Commission rules in favor of the
12 Company, then there should be corresponding increases to deferred tax credits of
13 \$17,742,538 and \$4,450,933 to deferred tax debits.

14 **Q. Are you supporting any Supplemental Exhibits in support of DP&L's Objections?**

15 A. Yes, I am supporting Supplemental Exhibits 1 and 2. Supplemental Exhibit 1 shows the
16 corrected deferred tax adjustment to Staff's proposed net plant in service. Supplemental
17 Exhibit 2 reflects the effect on deferred taxes based on the Company's position as
18 discussed above and supported in Witnesses Rennix's, Tregenza's and Kunz's testimonies.

19 **III. CONCLUSION**

20 **Q. Please summarize your testimony.**

1 A. In summary, I disagree with the Staff report as it pertains to the duplicative reduction of
2 real estate taxes related to Wright Patterson Air Force Base, the Average Property Tax
3 Rate and the Staff's lack of adjustment to deferred taxes to reflect their related rate base
4 adjustments. Each of these inaccuracies understates the Company's revenue requirement
5 and fails to compensate the Company for its true costs. Additionally, my testimony
6 incorporates the reinstatement of the deferred tax amounts related to objections supported
7 by Company Witnesses Rennix, Tregenza, and Kunz.

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

9 A. Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Supplemental Direct Testimony of Frank J.

Salatto has been served via electronic mail upon the following counsel of record, this 11th day of

April, 2018:

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

Attorney for PUCO Staff

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

Attorneys for Appellant
Office of the Ohio Consumers' Counsel

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

Attorneys for Appellant
Industrial Energy Users - Ohio

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

Attorneys for The Kroger Company

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

Attorneys for Ohio Energy Group

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

Attorneys for The Ohio Manufacturers'
Association Energy Group

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

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

Attorneys for the Environmental Law &
Policy Center

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

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

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

Attorneys for Buckeye Power, Inc.

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

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

Attorneys for the Ohio Environmental Council
and Environmental Defense Fund

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

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

Attorneys for Natural Resources
Defense Council

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

Attorney for Ohio Partners for
Affordable Energy

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

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

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

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

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

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

Attorneys for The Ohio Hospital Association

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

Attorneys for Interstate Gas Supply, Inc.

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

Attorney for Federal Executive Agencies

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

Attorney for The Edgemont Neighborhood
Coalition

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

Attorneys for Utility Workers of
America Local 175

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

Attorneys for Constellation NewEnergy, Inc.

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

Attorney for One Energy Enterprises, LLC

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

Attorneys for Retail Energy Supply
Association

/s/ Christopher C. Hollon
Christopher C. Hollon

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Supplemental Exhibit FJS - 1

Line No.	Description	Staff Proposed Amount	Company Adjustment	Staff as Adjusted	Supporting Witness
(A)	(B)	(C)	(D)	(E)	
1	Total Plant In Service	\$ (83,255,071)	\$ -	\$ (83,255,071)	
2	Total Reserve for Accumulated Depreciation	\$ 74,076,813	\$ -	\$ 74,076,813	
3				\$ -	
4	Net Plant In Service	\$ (9,178,257)	\$ -	\$ (9,178,257)	
5					
6	Working Capital Allowance	\$ (2,177,826)	\$ -	\$ (2,177,826)	
7					
8	Customers' Advances for Construction	\$ -	\$ -	\$ -	
9					
10	Deferred Tax - Objection XX	\$ -	\$ 2,007,640	\$ -	Salatto
11	Deferred Tax - Objection XX	\$ -	\$ -	\$ -	
12	Deferred Tax - Objection XX	\$ -	\$ -	\$ -	
13	Pension Asset	\$ -	\$ -	\$ -	
14	Other Rate Base Items	\$ (29,595,026)	\$ 2,007,640	\$ (27,587,386)	
15				\$ -	
16	Jurisdictional Rate Base	\$ (40,951,109)	\$ 2,007,640	\$ (38,943,470)	

The Dayton Power and Light Company
Case No. 15-1830-EL-AIR
Supplemental Exhibit FJS - 2

Line No.	Description	Staff Proposed Amount	Company Adjustment	Company as Adjusted	Supporting Witness
(A)	(B)	(C)	(D)	(E)	
1	Total Plant In Service	\$ (83,255,071)	\$ 68,501,173	\$ (14,753,898)	Rennix
2	Total Reserve for Accumulated Depreciation	\$ 74,076,813	\$ (59,136,785)	\$ 14,940,028	Rennix
3				\$ -	
4	Net Plant In Service	\$ (9,178,257)	\$ 9,364,387	\$ 186,130	Rennix
5					
6	Working Capital Allowance	\$ (2,177,826)	\$ -	\$ (2,177,826)	
7					
8	Customers' Advances for Construction	\$ -	\$ -	\$ -	
9					
10	Deferred Tax - Objection XX	\$ -	\$ (40,714)	\$ -	Salatto
11	Deferred Tax - Objection XX	\$ -	\$ 232,595	\$ -	Salatto
12	Deferred Tax - Objection XX	\$ -	\$ (13,291,605)	\$ -	Salatto
13	Pension Asset	\$ -	\$ 40,861,111	\$ -	Kunz
14	Other Rate Base Items	\$ (29,595,026)	\$ 27,761,387	\$ (1,833,639)	
15					
16	Jurisdictional Rate Base	\$ (40,951,109)	\$ 37,125,775	\$ (3,825,335)	

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

Annualize Property Tax to Reflect Plant In Service on Date Certain
Calculation of Property Tax Adjustment

Data: 4 Months Actual & 8 Months Estimated
Type of Filing: Supplemental
Work Paper Reference No(s): WPC-3.9b, WPC-3.9c, C-2.1

Supplemental Worksheet C-3.9a - 1
Supplemental Page 1 of 1
Witness Responsible: Frank Salatto

Line No.	Description (B)	Distribution (C)	General (D)	Total (E)
1	Ohio Property Tax			
2				
3	Original Cost at 9/30/2015	\$ 1,642,323,883	\$ 34,168,842	\$ 1,676,492,725
4	Intangible Plant	\$ -	\$ 71,852,172	\$ 71,852,172
5		\$ 1,642,323,883	\$ 106,021,014	\$ 1,748,344,897
6				
7	Estimated Valuation Percentage	37.64%	4.77%	
8	Property Valuation	\$ 618,161,211	\$ 5,055,842	
9	Average Property Tax Rate per \$1,000 Valuation	\$ 87.08	\$ 87.08	
10	Total Property Taxes - Pre-jurisdictional Plant	\$ 53,827,823	\$ 440,249	\$ 54,268,072
11				
12	Jurisdictional Adjustment	\$ (103,100,118)	\$ (71,075,402)	
13				
14	Estimated Valuation Percentage	37.64%	4.77%	
15	Property Valuation	\$ (38,806,288)	\$ (3,389,385)	
16	Average Property Tax Rate per \$1,000 Valuation	\$ 87.08	\$ 87.08	
17	Total Property Taxes - Pre-jurisdictional Plant	\$ (3,379,148)	\$ (295,139)	\$ (3,674,286)
18				
19	Total Jurisdictional Property Tax			\$ 50,593,786
20				
21	Less:			
22	Test Year Property Tax Expense			\$ 51,827,392
23				
24				
25	Annualization Adjustment to Property Tax			\$ (1,233,606)

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

Annualize Property Tax to Reflect Plant In Service on Date Certain
Calculation of Property Tax Adjustment

Data: 4 Months Actual & 8 Months Estimated
Type of Filing: Supplemental
Work Paper Reference No(s): WPC-3.9b, WPC-3.9c, C-2.1

Worksheet C-3.9a - 2
Page 1 of 1
Witness Responsible: Frank Salatto

Line No.	Description (B)	Distribution (C)	General (D)	Total (E)
1	Ohio Property Tax			
2				
3	Original Cost at 9/30/2015	\$ 1,637,027,061	\$ 33,795,705	\$ 1,670,822,766
4	Intangible Plant	\$ -	\$ 50,342,909	\$ 50,342,909
5		\$ 1,637,027,061	\$ 84,138,614	\$ 1,721,165,675
6				
7	Estimated Valuation Percentage	37.64%	4.77%	
8	Property Valuation	\$ 616,167,518	\$ 4,012,332	
9	Average Property Tax Rate per \$1,000 Valuation	\$ 87.08	\$ 87.08	
10	Total Property Taxes - Pre-jurisdictional Plant	\$ 53,654,218	\$ 349,383	\$ 54,003,601
11				
12	Jurisdictional Adjustment	\$ (53,204,806)	\$ (25,290,319)	
13				
14	Estimated Valuation Percentage	37.64%	4.77%	
15	Property Valuation	\$ (20,025,981)	\$ (1,206,024)	
16	Average Property Tax Rate per \$1,000 Valuation	\$ 87.08	\$ 87.08	
17	Total Property Taxes - Pre-jurisdictional Plant	\$ (1,743,809)	\$ (105,017)	\$ (1,848,826)
18				
19	Total Jurisdictional Property Tax		\$	\$ 52,154,775
20				
21	Less:			
22	Test Year Property Tax Expense		\$	\$ 51,827,392
23				
24				
25	Annualization Adjustment to Property Tax		\$	\$ 327,383

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Case No(s). 15-1830-EL-AIR, 15-1831-EL-AAM, 15-1832-EL-ATA

Summary: Testimony Supplemental Direct Testimony of Frank J. Salatto electronically filed by Mr. Jeffrey S Sharkey on behalf of The Dayton Power and Light Company