

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of The)	
Dayton Power & Light Company for)	Case No. 16-0395-EL-SSO
Approval of Its Electric Security Plan.)	

In the Matter of the Application of The)	
Dayton Power & Light Company for)	Case No. 16-0396-EL-ATA
Approval of Revised Tariffs.)	

In the Matter of the Application of The)	
Dayton Power & Light Company for)	
Approval of Certain Accounting)	Case No. 16-0397-EL-AAM
Authority Pursuant to Ohio Rev. Code)	
§ 4905.13.)	

**DIRECT TESTIMONY OF DEVIN CRIST
ON BEHALF OF
INTERSTATE GAS SUPPLY, INC.**

February 12, 2019

1 **Q. Please state your name and title.**

2 A. My name is Devin Crist. I am the Manager, Treasury and Risk for IGS Energy.

3 **Q. On whose behalf are you testifying?**

4 A. I am testifying on behalf of Interstate Gas Supply, Inc. ("IGS").

5 **Q. Please describe your educational background and work history.**

6 A. I have a Masters in Business Administration (M.B.A.) from Capital University and
7 a Bachelor of Business Administration (B.B.A.) from Ohio University. I am also a
8 Certified Treasury Professional (CTP). I started my career working at American
9 Municipal Power, Ohio (AMP) as an energy and billing analyst. I was promoted to
10 the role of Director of Energy Accounting and Settlements where I was responsible
11 for the energy settlements and billing between AMP and wholesale counterparties
12 and the utilities. In 2004, I was hired in the role of Director of Energy Accounting
13 and Controls with Accent Energy. At Accent Energy, I managed the margin
14 accounting and settlements as well as serving as the company's risk manager. In
15 2013, I assumed the role of Manager of Treasury and Risk at IGS Energy. In this
16 position I manage the company's credit and collateral position with utilities, RTO's,
17 and counterparties, oversee all treasury activity throughout the organization,
18 facilitate the corporate insurance program and direct the middle office's monitoring
19 and valuing of IGS Energy's energy trading program.

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to respond to the Stipulation and Recommendation
22 ("Stipulation") and to recommending that the Commission reject or at a minimum

1 modify Dayton Power and Light Company's (Dayton) proposed revisions to its
2 credit requirements and calculation of collateral. I recommend that the
3 Commission ensure that these requirements do not disproportionately impact
4 privately held, unrated companies relative to the risk they impose to Dayton.

5 **Q. Where are DP&L's collateral and credit requirements addressed?**

6 A. Dayton's credit and collateral requirements are addressed in the Alternative
7 Generation Supplier Coordination Tariff ("Supplier Tariff" or "Tariff G8").

8 **Q. Did DP&L propose to modify its credit and collateral requirements in its**
9 **application to establish and ESP?**

10 A. Yes, DP&L changes to its collateral and credit calculation, which significantly
11 increase the collateral requirements for privately held companies. Moreover, it is
12 my understanding that DP&L plans to apply these requirements without regard to
13 its tariff language, which requires DP&L to ensure that any required collateral must
14 be and remain commensurate with the financial risks placed on the Company by
15 that supplier.

16 **Q. What are you recommending?**

17 A. I recommend that the Public Utilities Commission of Ohio ("PUCO" or
18 "Commission") direct Dayton to modify its Supplier Tariff credit requirements to be
19 more in line with the other electric utilities in the state.

20 **Q. What is the impact of your recommendation?**

21 A. My proposal would result in a lower credit requirement for privately held companies
22 that are more consistent with publicly traded companies. The companies would

1 still post collateral and the new calculation would be more in line with industry
2 standards.

3 **Q. Why is there a credit requirement for electric suppliers?**

4 A. There is a credit requirement on electric suppliers in case of default. The utility
5 must provide its customers a firm supply of electric generation service when there
6 is a failure of a supplier to provide retail electric generation service. The credit
7 requirement covers any costs the utility would incur taking on the responsibility of
8 serving those customers.

9 **Q. Are all suppliers required to post collateral?**

10 A. No. Suppliers owned by public companies with investment grade long-term bond
11 ratings are deemed to satisfy their creditworthiness and receive an unsecured
12 credit limit.

13 **Q. Are privately owned companies required to post collateral?**

14 A. Yes. Privately owned companies which do not have bond ratings must make
15 alternative credit arrangements with Dayton.

16 **Q. What are alternative credit arrangements?**

17 A. A guaranty of payment, an irrevocable Letter of Credit, a Prepayment Account with
18 Dayton, a Surety Bond, or other mutually agreeable security or arrangement.

19 **Q. How is Dayton proposing to change its collateral requirements?**

20 A. Dayton is proposing the following changes to its collateral calculation in the
21 Supplier Tariff:

1 DP&L will calculate the amount of collateral to cover its risk as the
2 default supplier by multiplying ~~ninety (90)~~thirty (30) days of DP&L's
3 estimate of the summer usage of the AGS's customers by a price set
4 at the highest monthly average megawatt -hour price for ~~DP&L off-~~
5 ~~system purchased power from the prior summer less summer's PJM~~
6 Day Ahead market and by multiplying thirty (30) days of DP&L's
7 estimate of the average residual generation revenue that DP&L will
8 receive due to the defaulting AGS's customers returning to DP&L's
9 standard service offer capacity obligation by the final Dayton zonal
10 capacity megawatt-day price for the upcoming delivery year

11 **Q. Can you explain these changes?**

12 A. Dayton proposed to multiply 30 days of the supplier's estimated summer usage by
13 the highest monthly average megawatt-hour price from the prior summer's PJM
14 Day Ahead market and multiplies by 30 days of the supplier's capacity obligation
15 by the final Dayton zonal capacity megawatt-day price for the upcoming delivery
16 year.¹

17 **Q. Has Dayton provided a sufficient evidentiary basis to support the proposed**
18 **change?**

19 A. No, it has not presented testimony in support of the Stipulation to support the
20 change. Therefore, it should be rejected.

21 **Q. Has any supplier defaulted on its collateral calculations to necessitate a**
22 **change in Dayton's collateral requirements?**

23 A. No, IGS served discovery on Dayton to determine whether any supplier has
24 defaulted on its obligations. In response, Dayton indicated that "no such
25 circumstance has occurred."²

¹ DP&L Alternative Generation Supplier Coordination Tariff, sheet G8, page 24 of 30.

² Ex. DC-1 (DP&L Response to IGS-INT-11-6).

1 **Q. Why is this new calculation burdensome to privately held companies?**

2 A. Calculating 30 days of exposure *and* including the capacity obligation significantly
3 increases the amount that a supplier is required to post.

4 **Q. Does the proposed Supplier Tariff state that the credit amount should be**
5 **applied mechanically the same to all suppliers?**

6 A. No. The Supplier Tariff states that Dayton is supposed to account for actual risk
7 and consider performance. The Supplier Tariff states that “[t]he amount of the
8 security required must be and remain commensurate with the financial risks placed
9 on the Company by that supplier, *including recognition of that supplier’s*
10 *performance.*”³

11 **Q. Do you have any reason to believe that Dayton gives any weight to the**
12 **language in its tariff to consider actual risk and performance?**

13 A. No. While we do not believe Dayton’s proposed collateral change is reasonable,
14 at least for the time being, Dayton’s proposed changes are in effect, given the
15 Commission’s modification and approval of the Stipulation in this case. It is now
16 clear that these factors are not considered in any fashion when Dayton determines
17 if or what level of collateral IGS must provide. IGS has over 25 years of experience
18 serving retail customers in the state of Ohio and serves in total one million
19 customers without defaulting on its obligations. Moreover, the IGS family of
20 companies are involved in a diverse range of businesses. This diversity provides

³ DP&L Alternative Generation Supplier Coordination Tariff, sheet G8, page 24 of 30 (emphasis added).

1 additional resiliency and strength to IGS' balance sheet. But Dayton gives no
2 weight to any of these factors in setting IGS' collateral requirements.

3 **Q. Is it standard utility practice across the country to have a standard collateral**
4 **calculation, but also to provide for reductions to the amount of posted**
5 **collateral when a supplier has strong financial standing?**

6 A. Yes, I am responsible for ensuring that IGS posts sufficient collateral in electric
7 and gas utility service territories across the United States. It is standard practice
8 for utilities to establish a standard collateral calculation, but to then adjust
9 downward the amount of needed collateral based upon a supplier's financial
10 strength.

11 **Q. Can you identify the types of factors that utilities consider when they review**
12 **the financial strength of a supplier?**

13 A. Yes, my understanding is that IGS has been permitted to discount its otherwise
14 applicable collateral based upon the strength of its balance sheet, diversity of its
15 business, and past performance.

16 **Q. Do you recommend that the Commission require Dayton to consider any**
17 **particular factors in its collateral calculation?**

18 A. Yes, I recommend that, to the extent that Dayton's collateral change is not rejected
19 in its entirety, that the Commission require Dayton to give effect to the following
20 factors:

- 21 • Capital Structure. The absence or limitation of debt on the balance sheet is a
22 factor that contributes to financial strength of an entity, given that equity holders

1 are last in line in the case of financial stress limiting cash flows or net income.

2 Therefore, for each percent of a supplier's capital structure that is composed of
3 equity over 50%, I recommend that Dayton provide a corresponding 1%
4 reduction in collateral. For example, if a supplier has an equity to debt ratio of
5 75% to 25%, I recommend that their otherwise applicable collateral
6 requirements be reduced by 25%.

- 7 • Diversity of Portfolio. The existence of diversity in business ensures that market
8 dynamics are less likely to negatively impact cash flows needed to sustain
9 ongoing operations. Specifically, for each percent of a supplier's total business
10 portfolio (revenues) that relates to nonelectric-related business, I recommend
11 a corresponding 1% reduction in collateral requirements.

- 12 • Past Performance. An entities ability to meet its obligations over time is
13 reflective of that entities ability to meet its ongoing obligations through different
14 market dynamics. Just as a person may receive a lower rate for car insurance
15 for not getting into an accident, a supplier should receive a discount on their
16 collateral requirements for past performance. Indeed, DP&L's tariff specifically
17 requires DP&L to give effect to a supplier's past performance. I recommend
18 that DP&L give a supplier a 1% credit discount for each year that they have
19 met their obligations in the DP&L service territory.

20 To the extent that a supplier can meet more than one of the above requirements,
21 I recommend that the 1% discount in the second and third factor be reduced to
22 .5%.

1 **Q. Regarding the calculation itself, do other electric utilities in the state of Ohio**
2 **include capacity costs in their collateral requirements?**

3 A. No.

4 **Q. Can you explain how other electric utilities in Ohio calculate collateral?**

5 A. Yes. FirstEnergy requires a standard collateral payment in the amount of
6 \$250,000. Above that amount FirstEnergy uses a credit exposure formula. AEP
7 and Duke calculate collateral based on estimated energy usage.

8 **Q. What is the FirstEnergy credit exposure methodology?**

9 A. FirstEnergy requires suppliers to post \$250,000 in collateral. After that amount,
10 they calculate any additional requirement based on peak summer energy usage
11 for 5 days times peak pricing.

12 **Q. What is Duke's methodology?**

13 A. Duke's credit requirement for collateral is based on estimated summer usage for
14 30 days multiplied by July peak prices. Duke also provides a credit if the supplier
15 is participating in the Purchase of Receivables program.

16 **Q. Is AEP's calculation similar to Duke and FirstEnergy's?**

17 A. Yes, it is similar in that it uses an estimate to calculate the collateral payment.
18 AEP, however, estimates peak summer energy usage for 15 days and multiplies
19 that times July peak prices.

20 **Q. Does FirstEnergy, Duke or AEP include capacity obligation in their collateral**
21 **calculation?**

1 A. No.

2 **Q. Does FirstEnergy, Duke or AEP use the same number of days of exposure in**
3 **their collateral calculation?**

4 A. No. FirstEnergy uses 5 days, Duke uses 30 days, and AEP uses 15 days.

5 **Q. Do you support AEP's methodology over Dayton's methodology for**
6 **collateral calculation?**

7 A. Yes. I believe using an energy only estimate for the collateral would provide the
8 utility with a reasonable amount in case of default. I also believe 15 days' exposure
9 is more reasonable than 30 days.

10 **Q. What is the impact of including capacity obligation and 30 days of exposure**
11 **in the collateral calculation?**

12 A. Including capacity obligation at peak forward pricing and calculating energy and
13 capacity exposure based on 30 days can potentially add millions to the collateral
14 requirement.

15 **Q. Why is this an issue for suppliers owned by privately held companies?**

16 A. Having to post millions of dollars in collateral is unduly burdensome to privately
17 held companies with strong balance sheets. Similar public companies with credit
18 ratings are not required to post any collateral and yet, financially strong private
19 companies are required to post collateral. Typically speaking, privately held,
20 unrated companies such as IGS may have little or no business reason to get a
21 credit rating; therefore, DP&L's tariff is structured to the disadvantage of
22 companies like IGS.

1 **Q. Has Dayton consistently calculated and applied its collateral requirements?**

2 A. No, at one point, Dayton did require a de minimus amount of collateral, but then
3 changed it to zero. It remained at zero until earlier this year, although it had a tariff-
4 based method for calculating collateral requirements.

5 **Q. What are your recommendations?**

6 A. I recommend that Dayton give full effect to the requirement in its tariff that the
7 amount of the security required be and remain commensurate with the financial
8 risks placed on the Company by that supplier, including recognition of that
9 supplier's performance. I further recommend that Dayton revise the collateral
10 requirements to be more in line with the other electric utilities in the state. Either
11 a standard collateral amount or a calculation based on energy only based upon 15
12 days' exposure.

13 **Q. Does this conclude your testimony?**

14 A. Yes, it does. However, I reserve the right to further supplement my testimony.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing *Direct Testimony of Devin Crist on Behalf of Interstate Gas Supply, Inc.* was served this 12th day of February 2019 via electronic mail upon the following:

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/s/ Joseph Oliker

Joseph Oliker

INT-11-6. DP&L's application proposes to modify the collateral requirements contained the Alternate Generation Supplier Coordination Tariff (Sheet G8). For each year since 2010, identify all instances when a competitive retail electric service ("CRES") provider defaulted on its obligations in the DP&L service territory such that it was necessary to call on collateral posted by the defaulting CRES provider. If DP&L identifies any instances, provide specific details regarding the default.

RESPONSE: General Objections Nos. 1 (relevance), 4 (proprietary), 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 no such circumstance has occurred.

Witness Responsible: Sharon R. Schroder

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Case No(s). 16-0395-EL-SSO, 16-0396-EL-ATA, 16-0397-EL-AAM

Summary: Testimony electronically filed by Helen Sweeney on behalf of Interstate Gas Supply, Inc.