

FILE
Ohio

**Public Utilities
Commission**

Ted Strickland, Governor
Alan R. Schriber, Chairman

RECEIVED-DOCKETING DIV

2010 OCT -4 PM 4: 01

20
Commissioners

Valerie A. Lemmie
Paul A. Centolella
Cheryl Roberto
Steven D. Lesser

PUCO

October 4, 2010

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: *In the Matter of the Review of the Dayton Power & Light Company Corporate Separation Plan.* Case Number *10-1468-EL-UNC*

Enclosed please find a Staff Report regarding the review of the compliance of DP&L with its corporate separation plan.

Respectfully submitted,



Doris McCarter
Chief, Capital Recovery and Financial Analysis Division
Public Utilities Commission of Ohio

Enclosure

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business
Technician OC Date Processed 10-4-2010

10-1468-EL-UNC

**A report by the Staff of the
Public Utilities Commission of Ohio**

**The Dayton Power and Light Company
Corporate Separation Plan Compliance Audit**

October 4, 2010

EXECUTIVE SUMMARY

During the second quarter of 2010, the Staff of the Public Utilities Commission (Staff) initiated a review of Dayton Power and Light's (DP&L), also referred to herein as the "Company", Corporate Separation Plan. Staff did not uncover any major violations. However the Staff believes the following findings would improve DP&L's overall Corporate Separation Plan:

1. Included in the corporate organization chart are three vacant subsidiaries that formerly provided service but are no longer active. Staff recommends these subsidiaries should be removed.
2. DPL Inc's (DPL) Enterprise Risk Management Policy objective statement states, "DPL's overall objective is to manage and minimize entity-wide risk and optimize value to its "shareholders." Staff believes the word shareholder should be changed to "stakeholder."
3. Not all union employees received code of conduct training. DP&L provided a plan to cure this problem and has indicated that this plan will be put into effect almost immediately.

INTRODUCTION

In 2008, the Ohio General Assembly enacted Amended Senate Bill No. 221, restructuring Ohio's competitive retail electric service markets and establishing advanced energy resource standards. This new legislation required DP&L to establish a standard service offer of competitive retail service by applying to the Public Utilities Commission of Ohio (PUCO) for approval of an Electric Security Plan (ESP) or a market rate offer. Ohio Revised Code 4928.17 (O.R.C.) requires that electric distribution utilities operate under a corporate separation plan that is approved by the Public Utilities Commission of Ohio (Commission). In December 2008 the Commission adopted Chapter 4901:1:37, Ohio Administrative Code (O.A.C.), which implemented the corporate separation laws set forth in Amended Senate Bill No. 221.

On October 10, 2008 DP&L filed in 08-1097-EL-UNC its Corporate Separation Plan for the Commission's approval. As part of DP&L's filing, the pre-filed testimony of Timothy G. Rice, DP&L Vice President, Assistant General Counsel and Corporate Secretary, described the processes and controls DP&L has implemented pursuant to O.R.C. Section 4928.17 and O.A.C. Chapter 4937.

The Staff began its audit on April 8, 2010, to examine and test compliance with O.R.C. Section 4928.17 and O.A.C. Chapter 4901:1:37.

By way of background, DPL is a regional energy company. DPL's principal subsidiary is DP&L. DP&L sells electricity to residential, commercial, industrial and governmental customers within a 6,000 square mile area of West Central Ohio. Electricity for DP&L's twenty-four county service area is primarily generated at eight coal-fired power plants and is distributed to more than 500,000 retail customers. Principal industries served include: automotive, food processing, paper, plastic, manufacturing and defense. DP&L sells any excess energy and capacity into the wholesale market. DP&L also sells electricity to DPL Energy Resources, Inc. (DPLER), a PUCO CRES certified affiliate.

DPL's other wholly owned subsidiaries include DPL Energy, LLC (DPLE), which engages in the operation of peaking generating facilities and sells power in wholesale markets; DPLER, which sells retail electric energy under contract to major industrial and commercial customers in West Central Ohio; and Miami Valley Insurance Company (MVIC), which is its wholly owned insurance company that provides insurance to the Company and its subsidiaries. DPL also has a wholly owned business trust, DPL Capital Trust II, formed for the purpose of issuing trust capital securities to investors.¹ Included in the corporate organization chart are three vacant subsidiaries that formerly provided service but are no longer active. DP&L's Transmission and Distribution services are both housed under the Service Operations organization within the Company for the purpose of maximizing efficiency of operations in light of DP&L's size.

DPL's summer generating capacity, including peaking units, is approximately 3,794 megawatts. Of this capacity, approximately 2,827 megawatts, or 75%, is derived from coal-fired steam generating stations and the balance of approximately 967 megawatts, or 25%, consists of combustion turbine and diesel peaking units. DP&L's summer generating capacity, including peaking units, is approximately 3,249 megawatts. Of this capacity, approximately 2,827 megawatts, or 87%, is derived from coal-fired steam generating stations and the balance of approximately 422 megawatts, or 13%, consists of combustion turbine and diesel peaking units. During the year ended December 31, 2009, it generated 99.5% of its electric output from coal-fired units and 0.5% from oil and natural gas-fired units.²

The Staff structured its corporate separation review into the following four major areas: affiliate accounting, finance, fuel purchasing and code of conduct. DP&L's compliance methodologies will be addressed in turn below. Following the discussion of DP&L's compliance procedures and policies and Staff's general review, is Staff's assessment of DP&L's compliance with O.A.C. 4901:1:37.

¹ Please see attachment 1 for more detail on DPL affiliates

² <http://www.reuters.com>

ACCOUNTING

Virtually all employees under the DPL holding company system are officially "DP&L" employees. As a result, most of the non-utility subsidiaries have signed an agreement to pay for employees and services provided by DP&L to such non-utility subsidiaries. In addition, DP&L corporate staff (payroll, HR, accounting, legal, purchasing, IT, insurance and others) perform a host of services that benefit non-utility affiliates. The CAM (Cost Allocation Manual) provides the mechanism to allocate all of the O&M costs incurred by DP&L and benefitting one or more of the non-utility subsidiaries. Lastly, there are selected agreements between DP&L and non-utility affiliates to perform specific services for non-utility affiliates.³

Intercompany receivables and payables between DPL Inc. and DP&L are settled up through cash transactions monthly. Any intercompany receivables and payables between DP&L and the other non-utility affiliates are settled up with the holding company through accounting entries and then as mentioned above, are settled up in cash transactions between DP&L and DPL Inc. monthly.⁴

DPL Inc. utilizes Oracle Financial Subsystem (Oracle) which is a computer system designed to restrict financial information from being shared between the utility and its affiliates. Oracle segregates costs between three "organizations"; Regulated, Generation and Non-Regulated. Areas (departments) and employees are assigned to a specific "organization". To comply with corporate separation rules, cross charging and information access between "organizations" is restricted in Oracle.

Cost Allocation Philosophy

The fundamental underlying principle for DP&L's cost allocation approach is the use of a fully allocated cost methodology. A fully allocated cost methodology is premised on the concept of distributing operation and maintenance expenses among affiliates and business activities, either through direct charges or allocations, based on a consistent method of determining cost causation from period to period. Under a fully allocated cost methodology, all direct operation and maintenance expenses such as labor, materials, and other related expenses are included in the cost of the various business activities performed. In addition, indirect charges including fringe benefits, area overhead, and corporate overhead are applied to arrive at the fully allocated cost for each business activity. All resultant cost allocations for affiliates and business activities to regulated and unregulated lines of business are based on some measure of cost causation for that business activity. This overall approach to cost allocation will be followed to the extent that it does not result in incurring a cost that is uneconomical in relation to the benefits achieved.

³ DP&L response to Staff DR. 5

⁴ DP&L response to Staff DR. 21

Allocation Methods

The actual application of fully distributed cost allocations occurs through what is commonly called the allocation method. The allocation process begins with the premise that, to the maximum extent practical, all costs that can be specifically attributed to affiliates or business units are directly charged to the affiliate or business unit. Second, indirect costs that are significant in amount, but which cannot be directly charged, are transferred to affiliates or business units on the basis of each area's fully loaded hourly rate times the hours required to provide the service to the affiliate. In the third stage, any remaining costs not previously assigned to an affiliate or business unit are allocated using the most appropriate basis for each corporate area.

Direct Costs

Charging of direct costs to affiliates can occur in two ways. For labor costs, direct charging is accomplished through time sheets (including default management timesheets) that record payroll by area and account on a biweekly basis.

For material or other non-labor costs, a material requisition, invoice, or other accounting source document is coded for direct charging to the appropriate project/task or general ledger account and business unit responsible for the transaction.

Indirect Costs

For certain activities, it may be impractical to directly charge labor, materials, or other costs to an affiliate because of the lack of a practical and cost efficient administrative means of implementation. In those situations, the costs are either transferred based on time expended or allocated on the basis of a selected allocation measure. In choosing a measure for use as an allocation factor, the measure should be generally representative of the relative degree of utilization of the business activity by the respective businesses. Examples could include the labor costs, sales, number of employees, or the number of computers assigned to the respective businesses. In any situation, the objective is to achieve a proper sharing of costs.

Area Cost Transfers

Areas assigned to a business unit may provide services to another DP&L business unit or a non-regulated company within DPL. Corporate areas may also perform services for business units or non-regulated affiliates. Area cost transfers are generated by the charging area by using an appropriate project and task in the accounting system to charge the area receiving the service. Area cost transfers are based upon labor hours charged multiplied by a fully loaded hourly rate for the area rendering the service.

The rate is derived based on 12 months actual dollars and applied throughout the year. The rate reflects direct labor, fringe benefits, and payroll taxes.

Corporate Allocations

Corporate allocations consist of costs incurred by corporate areas for activities that support the overall conduct of business but that cannot be readily assigned to specific business activities, projects, or individual business units. Corporate areas are established for activities such as executive management, legal, treasury and accounting. Such activities broadly benefit DP&L and its affiliates, and thus need to be allocated to DP&L and its affiliates in an equitable and uniform fashion. In each of the corporate areas, only the costs that remain after area cost transfers to affiliates are included in corporate allocations. These operating expenses are distributed based on an allocation factor selected for each corporate area.

Employee fringe benefits are another example of corporate allocations. Employee fringe benefits are costs included in a corporate area that benefits employees across all affiliates. Fringe benefits include components for medical coverage, disability insurance, life insurance, pension plan and employee savings plan participation, and payroll taxes. Fringe benefits are considered an addition to the cost of Company labor that must be applied so that the fully allocated cost of labor is properly attributed to business activities, projects, and lines of business.

Service Transfers

DP&L may provide electric services to its unregulated affiliates. In cases where these services are regulated, such as distributing electricity to streetlights for Miami Valley Lighting, the applicable tariffs on file with the PUCO will govern the transactions. In cases where the services are not regulated, an executed agreement between the entities will govern the transaction.

Asset Transfers

In general, assets acquired for or used by DP&L or any of its affiliate businesses will be reflected on the books of the affiliate for which the asset benefits. In certain instances, however, assets may be transferred to an affiliated unregulated business or transferred from an unregulated affiliate to the electric utility if there is a reasonable economic reason for doing so. In these instances, transfers of assets between affiliates will be recorded. Such value will be determined as of the date of transfer.

Use of Assets by Affiliates

In certain instances, an affiliated unregulated business may use assets of the regulated utility operations or the regulated utility operations may use assets of an unregulated affiliate. In these cases, the approach to be followed regarding cost allocation should ensure the transfer of all costs related to the use of the asset for the period of time it is utilized by the affiliate.

Intercompany Accounting Procedure between Affiliates

Area cost transfers, corporate allocations and asset utilization provided by regulated utility operations to affiliated unregulated businesses are accumulated monthly in intercompany accounts in the general ledger. The cost allocation system produces the accounting entries for indirect costs charged to the affiliate including fringe benefits and department overheads by applying the fully allocated billing rate to the labor hours charged to the affiliate. The affiliated unregulated businesses will reimburse DP&L's regulated utility operations for the indirect costs incurred. Documentation regarding specific charges to affiliates should be maintained by the respective departments to address any question that may arise regarding the cost transfer. Similarly, charges for service and asset transfers provided by an unregulated affiliate to a regulated affiliate will also be accumulated monthly and charged accordingly. Charges for asset utilization to unregulated affiliates will be billed periodically using market-based rates.

Testing the Policies

The Staff randomly sampled direct fully loaded transactions, indirect costs and corporate costs that are allocated. The Staff also asked to review assets owned by DP&L but that were used by an affiliated company. Staff was told that there were not any material circumstances of this occurring during the audit period. During this review Staff did not uncover any anomalies.

Overall Allocations Benchmark

The resulting allocation methodologies result in 98.4% of the expenses being allocated to DP&L while 97.6% of DPL revenue is generated by DP&L as detailed by the chart below. When Staff asked the Company to provide the Ohio jurisdictional revenue of DP&L the Company stated that this information was not available.

	<u>DP&L</u>	<u>DPL Inc.</u>	
Revenues	\$ 1,550.4	\$ 1,588.9	97.6%
Cost of Revenues	\$ 582.8	\$ 590.6	
Operating Expenses	\$ 545.7	\$ 570.1	
Income Tax Expense	\$ 124.5	\$ 112.5	
Subtotal Expenses	\$ 1,253.0	\$ 1,273.2	98.4%

FINANCE

The Company stated in response to a Staff data request that there are no formal financial protections in place between DP&L regulated and non-regulated businesses. As such, virtually all assets of DP&L are subject to the lien of DP&L's First Refunding Mortgage. Any action to separate or insulate the regulated from unregulated functions of DP&L would be subject to the approval of the bondholders, which consent may be tremendously difficult to obtain. In addition the Company stated that the cost of secured financing is less than the cost of unsecured financing.⁵ Furthermore, DP&L states that in Case No. 99-1687-EL-ETP the Commission indicated acceptance of DP&L's functional separation from its affiliates.

Risk Management

One valuable tool in managing the separation between regulated and non-regulated activities is by implementing a corporate risk management function. DPL Inc. began formalizing their policies in 2008 and created the Enterprise Risk Management Policy which is summarized below.⁶

Policy Overview

Background and Purpose of the Enterprise Risk Management Policy

Enterprise risk management (ERM) is a process through which the Company strives to identify, measure, evaluate and manage risks to achieve its corporate objectives. The process is overseen by the Audit Committee of the Board of Directors (Audit Committee) and implemented on an entity-wide basis by executive management. The Audit Committee is an operating committee charged with oversight of financial reporting and disclosure.

The purpose of the ERM Policy is to establish the practices that the Company will follow as it embeds ERM concepts throughout the organization and within its decision making processes. The ERM Committee will:

- Ensure the implementation and maintenance of a process to effectively identify and manage business risks;
- Educate personnel on the meaning of ERM;
- Emphasize the Company's commitment to ERM;
- Identify the roles and responsibilities relating to the ERM process; and
- Prescribe the process for implementing and sustaining the ERM process.

⁵ Staff interview - June 15, 2010

⁶ It should be noted that the Service Operation's Vice President represents both the transmission and distribution functions.

Governance and management of commodity risk will continue to be covered by DPL's Commodity Risk Management Policy.

Objectives

DPL's overall objective is to manage and minimize entity-wide risk and optimize value to its shareholders

Specifically, the objective of the Company's ERM process is to:

- Align risk appetite and strategy;
- Enhance risk response decisions;
- Reduce operational surprises and losses;
- Identify and manage cross-enterprise risks;
- Provide integrated responses to multiple risks;
- Guide and be an integral part of strategic planning, business function planning, and performance reporting at all levels of the Company;
- Actively engage the Audit Committee of the Board of Directors in the ERM process;
- Seize opportunities; and
- Improve deployment of capital.

Organizational Structure

The sections below outline the roles and responsibilities of key participants in DPL's ERM process.

2.1. Audit Committee of the Board of Directors

The ERM activities of the Company shall be conducted pursuant to the ERM Policy and reviewed by the Audit Committee at a minimum each calendar year. Any modifications to the ERM Policy shall be brought before the Audit Committee as needed for approval prior to acceptance and implementation.

ERM Committee (ERMC)

The Audit Committee approves the ERM Policy of the Company. The ERMC reports directly to the Audit Committee. The ERMC shall appoint a chair who will report to the chair of the Audit Committee on a real-time basis as necessary, but at a minimum semi-annually. The authority to oversee the adherence to this policy and to approve procedures that govern the execution of day-to-day decisions are given to the ERMC. This delegation of authority will allow the Company to effectively manage risk as well as

ensure compliance with DPL's policies and procedures. The ERM Council shall meet at least quarterly and has the following responsibilities:

- Review the ERM Policy at a minimum each calendar year.
- Review proposals for modifications to the policy and recommend changes to the Audit Committee.
- Oversee and ensure an effective ERM process.
- Receive updates and make decisions on key business risks.
- Support and set a tone for risk management activities to ensure the ERM process is functioning properly within the business units.

The ERM Council consists of DPL's Executive Management Team as determined by the CEO. Current members include:

- President & Chief Executive Officer
 - Executive Vice President, Operations
- Senior Vice President, Corporate & Regulatory Affairs
- Senior Vice President, Chief Financial Officer & Treasurer
- Senior Vice President, General Counsel & Corporate Development
- Senior Vice President
- Senior Vice President and Chief Administrative Officer
- Senior Vice President, Commercial Operations
 - Vice President, Service Operations
 - Vice President, Plant Operations
 - Vice President, Controller and Chief Accounting Officer

Risk Owners

Each risk will be assigned by the ERM Council to the member of the Executive Management Team responsible for that area, who, in turn, may delegate to another employee in their area. Risks common across business units will be assigned to a member of the Executive Management Team.⁷

FUEL PURCHASING

Gas

In addition to selling retail electric energy under contract to major industrial and commercial customers in West Central Ohio, DP&L procures gas for itself and on behalf of DP&L. Gas is then supplied to four generating stations. The generating stations are: Hutching and Yankee which are owned by DP&L, Montpelier which is owned by

⁷ DPL Enterprise Risk Management Policy, December 8, 2009

DPLE and Tait which is jointly owned. The cost of purchasing the gas and the commodity itself are summed and then allocated proportionally to DP&L and DPLE.

Retail Fuel and Purchased Power

The stipulation in DP&L's ESP, Case No. 08-1094-EL-SSO, which was approved on June 24, 2009 stated:

DP&L will implement a bypassable fuel recovery rider to recover retail fuel and purchased power costs, based on least cost fuel and purchased power being allocated to retail customers. To calculate the rider, jurisdictional emission allowance proceeds and twenty five percent of jurisdictional coal sales gains will be netted against the fuel and purchased power costs. Retail customers for the purpose of this calculation include DP&L as well as DPL Energy Resource customers. The rider will initially be established at 1.97 cents per kWh, which amount will be subtracted from DP&L's residual generation rates. No later than November 1, 2009, DP&L will make a filing at the Commission to establish the fuel rider to become effective January 1, 2010. Thereafter, the Company shall file quarterly adjustments for recovery of the cost of fuel and purchased power. The Company's annual filing will be submitted during the first quarter of each year, beginning in 2011, and will be subject to due process, including audits and hearings (unless no signatory party objects to foregoing the hearing) for the twelve-month periods ending December 31, 2010 and 2011. The Company's annual filing shall include but not be limited to details substantiating all costs included in the fuel recovery rider during the prior calendar year so that Staff and interested parties can evaluate the methodology, account balances, forecasts, and substantiating support. Such audit shall be conducted by an independent third party auditor or Staff, at the Commission's discretion. If conducted by a third party: (a) the third party will be engaged by and report to staff; and (b) DP&L will fund the audit and may seek cost recovery through the fuel recovery rider. DP&L will withdraw its request for deferral of fuel costs for 2009-2010.

Based on the fact that this transaction is currently under audit review Staff will not comment on its implications regarding corporate separations in this report.

Code of Conduct

A utility's adherence to Code of Conduct provisions is imperative to its relationships with affiliates. In order for the utility to adhere to the Code of Conduct in Ohio, the utility must encompass all of the relevant sections contained in the Revised Code. Here, DP&L adopted its own Code of Conduct and included it in its Corporate Separation Plan.⁸ DP&L's Code of Conduct provisions were adopted to include all of the relevant

⁸ DP&L Corporate Separation Plan Case No. 08-1094-EL-SSO, Book I

sections of the Revised Code. However, to understand how DP&L complies with its code of conduct, Staff requested information through a verification process, which involved interviews and document requests, to ensure that DP&L follows the established company policies, procedures, and practices.

Financial Information Access Procedures

A key component to a utility's compliance with the Code of Conduct is ensuring that confidential customer information is kept from being provided to an affiliate without customer permission. To comply with this provision a utility must make sure the employees with appropriate access to this type of information are aware of the importance of maintaining confidentiality in accordance with the Code of Conduct. In order to accomplish this, DP&L utilizes the Oracle Enterprise System (Oracle) to restrict financial information from being shared between the utility and its affiliates. Oracle is a computer system which provides various access barriers, such as user ID's and passwords, in order to protect customer information.

DPL, Inc. performs an annual review of the system controls within Oracle to ensure its viability.⁹ During the annual review, two security tests are completed in order to ensure appropriate access by either module super users or department staff. Forms acknowledging the employee name, date, and reason for access are signed by supervisors or the super users and sent for review by designated IT employees to determine appropriate employee access. DP&L also has additional restrictions in place regarding computer access in order to keep DP&L customer information from accidentally being retrieved by DPLER employees.

Additionally, DP&L restricts access to their Customer Service Support (CSS) information. In order to do this effectively employees must complete the CSS User Access form and submit it to the IT Service Support Team, where the functionality is granted and the documents are stored. Annually, Internal Audits conducts a review of the CSS in which each respective application owner is asked to review a listing of all the employees (user ID's) that have access to the application to determine if their access is appropriate.¹⁰ Any inappropriate access is investigated and followed through with appropriate disciplinary action. The application owner also has the right to review the employee listings and/or request assistance from another employee with knowledge of the process. Service Support Analysts (SSA), an independent company, keeps track of any permission access changes in order for DP&L to remain neutral during the review.

⁹ ITG-IT General Controls – 2009 Annual Security Review Test

¹⁰ ITG-IT General Controls – 2009 New user Access Control Test

Marketing Practices and Advertising

Regarding marketing and advertising practices, DP&L complies with the PUCO's Code of Conduct both as to protecting the integrity of customer information and marketing practices. As mentioned above, DPLER is a PUCO approved CRES provider and, accordingly, DP&L does not discriminate in its favor by providing any customer information that is uniquely held by DP&L and not given to other CRES providers.¹¹ The same financial information restriction mechanisms from above are used along with physical separation in order to maintain customer information confidentiality. Additionally, DP&L's advertising campaigns do not favor any affiliates and meet all requirements under the Code of Conduct. Staff was able to sample some of DP&L's advertising material in order to verify that the content met these requirements.

Code of Conduct Training

DP&L conducts Code of Conduct training for both non-union and union employees to make certain that each employee is aware of the policies regarding unreasonable sales practices, market deficiencies or market power exercised by any retail electric service supplier. DP&L management level and non-union employees are required to complete their Code of Conduct training annually via an online system called "We Comply." We Comply provides a program that reinforces the procedures of how to maintain confidentiality regarding customer information along with other important Code of Conduct procedures needed to conform to the relevant sections of the Ohio Code. All union employees are provided live training during meetings and given written information regarding Code of Conduct policies.¹² After reviewing attendance logs that were provided by DP&L Staff discovered that 167 out of 874 union employees have not yet received Code of Conduct training.

Complaint Procedures

Under the Code of Conduct a utility must have a process in place which allows customers or employees to report violations of the Code of Conduct or Corporate Separation Rules. Regarding complaint procedures, DP&L's Corporate Separation Plan provides a process that the Company uses to investigate, report, and memorialize complaints that allege violations of the Corporate Separation Plan or the Code of Conduct. Under these provisions, corporate separation complaints are forwarded to the Legal Department, who acknowledges receipt of the complaint, and if feasible, provides preliminary results within thirty days of receipt.¹³ Copies of the documents pertaining to the complaint are subsequently added to the CAM for record purposes. Additionally, DP&L has an employee hotline that is in place to take any calls regarding violations of

¹¹ DP&L response to Staff DR. 10

¹² Union meeting attendance sheets

¹³ DP&L response to Staff DR. 10

any provisions within the Code of Conduct by employees.¹⁴ DP&L utilizes this hotline for such complaints and also provides the option for a caller to remain anonymous. The hotline is run by a third party company, Compliance Concepts, Inc., in order to maintain DP&L's neutrality regarding complaints.¹⁵

CONCLUSION

Below Staff addresses, provision by provision, the criteria for examining compliance with the Commission's Corporate Separations Rules. Along with each rule is a brief explanation how the Staff believes DP&L complies.

Provisions to maintain structural safeguards: Ohio Admin. Code § 4901:1-37-02 (B)(1).

The Company utilizes Oracle software to allocate and directly assign charges. Staff sampled these transactions and did not uncover any anomalies. Also software containing sensitive information is password protected. Staff sampled access to sensitive information and found that proper access controls were in place. The Staff also found that transactions between affiliates are governed either by contract or tariffs.

Provisions that maintain separate accounting: Ohio Admin. Code § 4901:1-37-05 (B)(2).

Where applicable the Company keeps separate books from its affiliates.

A list of all current affiliates identifying each affiliate's product(s) and/or service(s) that it provides: Ohio Admin. Code § 4901:1-37-05 (B)(3).

The Company provided a Corporate Organization Chart that explains the products and services provided by each affiliate; however, there were multiple affiliates that no longer provided any products or services.

A list identifying and describing the financial arrangements between the electric utility and all affiliates: Ohio Admin. Code § 4901:1-37-05 (B)(4).

DP&L utilizes contracts to manage the transactions between affiliates. In regard to financing activities there are no formal financial protections in place between DP&L regulated and non-regulated businesses. Obtaining such protections for DP&L itself represents a significant challenge since virtually all assets of DP&L are subject to the lien of DP&L's First Refunding Mortgage. DP&L believes any such action to separate or insulate the regulated from unregulated functions of DP&L would be subject to the

¹⁴ DP&L website: <http://www.dpandl.com/>

¹⁵ Invoice Compliance Concepts, Inc.

approval of the bondholders, which consent would be tremendously difficult to obtain. In addition the Company stated that the cost of secured financing is less than the cost of unsecured financing. Finally, DP&L's functional separation has been acknowledged by the Commission.

A code of conduct policy that complies with this chapter and that employees of the electric utility and affiliates must follow: Ohio Admin. Code § 4901:1-37-05 (B)(5).

DP&L has adopted a Code of Conduct policy within their Corporate Separation Plan that mirrors the Ohio Revised Code.

Joint advertising and/or joint marketing activities: Ohio Admin. Code § 4901:1-37-05 (B)(6).

Based on interviews, data requests, and a review of advertising samples that were provided, Staff is satisfied that DP&L is in conformance with the Code of Conduct regarding marketing and advertising practices.

Provisions related to maintaining a cost allocation manual ("CAM"): Ohio Admin. Code § 4901:1-37-05 (B)(7).

The Company maintains a very detailed CAM which contains policy consistent with those required by the Commission.

Education and training: Ohio Admin. Code § 4901:1-37-05 (B)(8).

Staff was able to verify Code of Conduct training by both union and non-union employees through interviews and documents requests. The documents provided showed the attendance and completion of training for all non-union employees via the We Comply online program. Regarding the union employees, DP&L provided Staff with attendance sheets containing employee signatures that verified they received live Code of Conduct training. As discussed above, Staff found that not all union employees participated in Code of Conduct training. Consequently, DP&L has provided Staff with a detailed plan to cure the problem which ensures all union employees will receive training without further delay.

Policy statement to be signed by electric utility and affiliate employees who have access to any nonpublic electric utility information: Ohio Admin. Code § 4901:1-37-05 (B)(9).

DP&L restricts access to their customer information. In order to do this effectively employees must complete the CSS User Access form and submit it to the IT Service Support Team, where the functionality is granted and the documents are stored.

A description of the internal compliance monitoring procedures and the methods for corrective action for compliance with this chapter: Ohio Admin. Code § 4901:1-37-05 (B)(10).

Staff was able to verify the use of the Oracle Enterprise System for financial information restrictions through interviews, data requests, and more specifically the copy of the 2009 Annual Security Review Test that was provided by DP&L. Within the annual review it explains how the system works, provides detailed steps of how the review is conducted, and contains sample lists of employees and their permitted access.

Staff was also able to verify that DP&L was able to successfully restrict access to customer information within their CSS due to a thorough review of 2009 Internal Audit's Annual Security Review Test regarding CSS.

Electric utility's compliance officer: Ohio Admin. Code § 4901:1-37-05 (B)(11).

DP&L's legal department handles all complaints regarding Corporate Separation or Code of Conduct violations.

A detailed description outlining how the electric utility and its affiliates will comply with this chapter. The format shall identify the provision and then provide the description: Ohio Admin. Code § 4901:1-37-05 (B)(12).

DP&L provided this information in Case 08-1094-EL-SSO in Book1, Chapter 4, Exhibit 4.

A detailed listing of the electric utility's electric services and the electric utility's transmission and distribution affiliates' electric services: Ohio Admin. Code § 4901:1-37-05 (B)(13).

DP&L provided a list of affiliates and products in Case No. 08-1094-EL-SSO.

A complaint procedure to address issues concerning compliance with this chapter: Ohio Admin. Code § 4901:1-37-05 (B)(14).

Staff reviewed print outs of DP&L's web pages that provide guidance to employees on how to report violations of either Code of Conduct or Corporate Separation Rules. Staff reviewed documents within the CAM regarding an outdated complaint to verify the procedure described above. DP&L also provided a copy of an invoice and letter between the utility and Compliance Concepts, Inc. who independently runs the compliance hotline provided on the DP&L's website in order to maintain neutrality. Staff is satisfied with the procedures and mechanisms that are in place for employees to report any relevant violations.

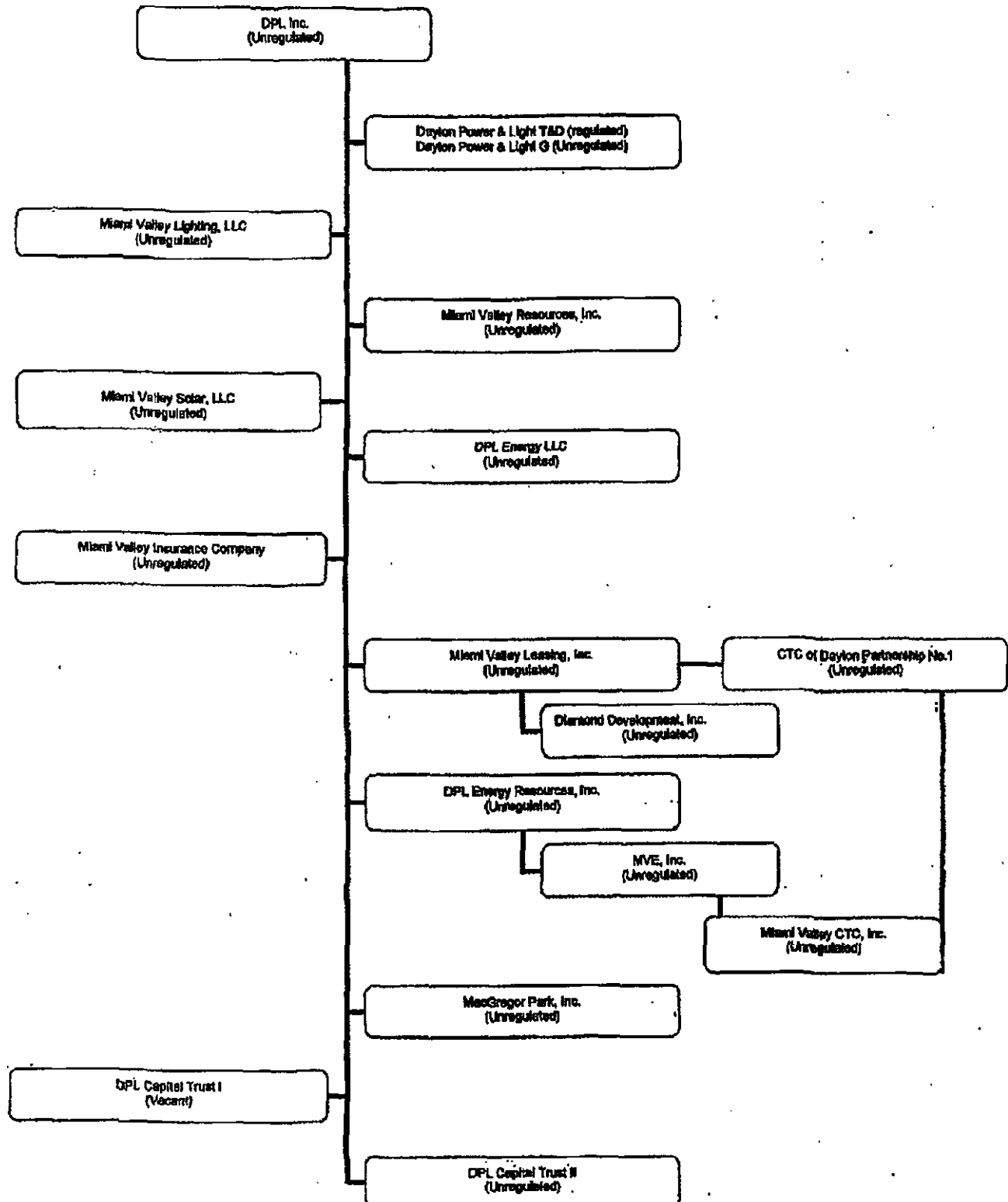
FINDINGS

In general the Staff's investigation did not uncover any major areas of non compliance with the Corporate Separation Rules. However the Staff believes the following findings would improve DP&L's overall Corporate Separation Plan.

1. Included in the corporate organization chart are three vacant subsidiaries that formerly provided service but are no longer active. Staff recommends these subsidiaries should be removed.
2. DPL Inc's (DPL) Enterprise Risk Management Policy objective statement states, "DPL's overall objective is to manage and minimize entity-wide risk and optimize value to its "shareholders." Staff believes the word shareholder should be changed to "stakeholder. "
3. Not all union employees received code of conduct training. DP&L provided a plan to cure this problem and has indicated that this plan will be put into effect almost immediately.

The Dayton Power and Light Company
Cost Allocation Manual

Organization Chart
(As of 10/21/09)



Attachment 1

The Dayton Power and Light Company Cost Allocation Manual

DPL INC. Affiliates (Revised 10-21-09)

DPL Inc. holding company.

The Dayton Power and Light Company T&D supplies noncompetitive retail electric utility services.

The Dayton Power and Light Company G supplies electric generation services and products.

Macgregor Park, Inc. owns and is a developer of real estate.

Miami Valley CTC, Inc. formerly provided transportation services.

Miami Valley Leasing, Inc. leases communication and other equipment, owns real estate and owns the outstanding stock of Diamond Development, Inc.

Miami Valley Resources, Inc. provides natural gas supply management services.

Miami Valley Lighting, LLC owns and operates a street lighting business.

Miami Valley Insurance Company is engaged in the business of providing insurance to DPL Inc., DP&L and affiliated companies.

Miami Valley Solar, LLC vacant subsidiary

MVE, Inc. owns the outstanding shares of Miami Valley CTC, Inc.

DPL Energy, LLC engages in the business of generating and marketing wholesale electric energy.

DPL Energy Resources, Inc. is engaged in the business of selling competitive retail electric energy and other retail services and owns the outstanding shares of MVE, Inc.

Diamond Development, Inc. owns real estate.

DPL Capital Trust I vacant subsidiary that was formed for a limited purpose, to issue and sell securities.

DPL Capital Trust II subsidiary that was formed for a limited purpose, to issue and currently has outstanding securities.

CTC of Dayton Partnership No. 1 formerly managed transportation services.