BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

CASE NO. 21-0588-EL-UNC

DIRECT TESTIMONY
OF PATRICK DONLON

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

PUBLIC VERSION

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PATRICK DONLON

ON BEHALF OF
THE DAYTON POWER AND LIGHT COMPANY

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Patrick Donlon. My business address is One Monument Circle, Indianapolis, Indiana, 46204.

Q. By whom and in what capacity are you employed?

A. I am employed by AES U.S. Services, LLC ("AES Services") as Director of Regulatory Accounting for it US Strategic Business Unit ("SBU"), which includes The Dayton Power & Light Company d/b/a AES Ohio ("AES Ohio" or "Company"), as well as Indianapolis Power & Light Company ("AES Indiana").

Q. Please describe briefly your educational and business background.

A. I received a Bachelor of Science degree in Accounting with a minor in Economics Management from Ohio Wesleyan University in 2000. In 2010, I earned a Master of Business Administration degree from Franklin University. I worked for American Electric Power ("AEP") for just under ten years in two stints with the company serving in various roles. For AEP, I was an accountant in the Generation Accounting Department; an Hourly Energy Trader focusing in the Southwestern Power Pool market; a Fuel, Emissions and Logistics Coordinator; and a Financial Planning Analyst in Commercial Operations. I worked for the Public Utilities Commission of Ohio ("Commission") from August 2012 through January 2018. I served as a Manager of the Rates Division of the Utilities Department and then was promoted to Director of the Rates and Analysis Department and Executive Director of Power Siting. Following my time at the

Commission I worked as a consultant and for a small energy startup prior to joining AES Services in June of 2020 as the Director of Regulatory Accounting.

Q. Have you previously provided testimony before the Commission?

A. Yes, I have provided testimony in various gas and electric rate cases, electric Standard Service Offer cases and natural gas cost recovery cases. See attachment A for a complete list.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to support the calculations of the Company's Return on Equity ("ROE") and provide accounting and financial information required, which demonstrate that AES Ohio passes the Significant Excessive Earnings Test ("SEET") in R.C 4928.143(F) for 2020. As shown in PJD-1 and PJD-2, AES Ohio's adjusted Return on Equity ("ROE") and unadjusted ROE for 2020 are significantly lower than the SEET threshold as well as the "Safe Harbor" supported by Company Witness Illyes.

Q. Please list the exhibits you are supporting.

A. I am supporting the following exhibits:

Exhibit PJD-1: Calculation of Per Books Return on Equity – Base with Adjustments

Exhibit PJD-2: Calculation of Per Books Return on Equity – Base

Exhibit PJD-3: Future Estimated Capital Expenditures

Q. Please explain the calculations on Exhibit PJD-1, Calculations of Per Books Return on Equity – With Adjustments.

A. Exhibit PJD-1 is AES Ohio's recommended schedule that shows that AES Ohio earned an ROE of 3.0% during 2020 after appropriate adjustments are made. The schedule shows the following adjustments:

a. Accrued Penalty in Account 426.3,

b. 2020 Property tax adjustment in 2021,

c. 2019 Property tax adjustment in 2020,

d. Loss on Disposition of Retired Asset,

e. Tax Cuts and Jobs Act ("TCJA") adjustment 2019,

f. Generation Asset Impairments, net of gain on sale,

g. AES Equity contributions 2020, 2021.

Q. Please explain the adjustment for Accrued Penalty in Account 426.3.

A. The Accrued Penalties have been added back so that any amounts associated with those penalties do not benefit AES Ohio in the SEET by reducing the earned return. The Commission approved this adjustment most recently in Case No. 18-873-EL-UNC.

Q. Please explain the adjustments for 2020 Property tax adjustment in 2021 and the 2019 Property tax adjustment in 2020.

A. Property taxes are estimated and accrued throughout the year and a final assessment of property taxes is typically completed and booked in the following year. The property tax adjustments move the final assessments into the actual year they are incurred.

Q. Please explain the adjustment for Loss on Disposition of Retired Asset.

A. The loss on Disposition of Retired Assets results from the February 26, 2018 transfer of DP&L's interest in the retired Beckjord generation facility to a third-party including all obligations to remediate the facility and its site. This adjustment was made for two reasons. First, it is a one-time nonrecurring charge. Second, it is related to retired generation assets and including this loss would reduce AES Ohio's ROE inappropriately if left in. The adjustment is made to add back this loss to both the Adjusted Earnings and Equity. The Commission approved this adjustment most recently in Case No. 18-873-EL-UNC.

Q. Please explain the adjustment for the TCJA.

A. When the TCJA was enacted lowering the corporate tax rate, AES Ohio was required by accounting standard governing income taxes, ASC 740, to remeasure its deferred taxes. This remeasurement resulted in a decrease to its net deferred tax liability which was initially estimated and recorded to a regulatory liability pending resolution with the Company's regulators, the PUCO and FERC. AES Ohio proposed to include in the amount of excess deferred taxes to be reversed for the benefit of its distribution customers those amounts that were related to the deferred taxes included in its distribution rate base. Once the Commission approved the stipulation, the regulatory liability for the excess deferred taxes was overstated compared to the original estimate and had to be adjusted to reflect the amounts that had been agreed to by the parties. This resulted in a one-time $18 million tax benefit recorded in 2019. As a result, in Commission Case Nos. 19-1211-EL-UNC and 20-1041-EL-UNC, AES Ohio proposed to exclude that tax benefit from the 2019 SEET. Excluding those 2019 earnings from the 2019 SEET, however, causes a corresponding reduction to equity, which carries forward to later years.

Q. Please explain the adjustment for Generation Asset Impairments, net of gain on sale.

A. The Generation Asset Impairments adjustment are non-recurring, special and extraordinary items that should be removed for SEET purposes. These asset generation write-offs are extraordinary from an economic perspective. Calculating AES Ohio's ROE for the SEET based on book values understates the equity investment in the Company; therefore, overstating AES Ohio's ROE from an economic perspective. This is because write-offs reflect losses in the assets' value that reduce book value of equity but not the real economic investment of equity holders. And the Commission has acknowledged this in the past. Specifically, the PUCO found that AES Ohio's divestiture of the generation assets constitutes and extraordinary event and that its financial impact should be excluded for in AES Ohio's SEET:

> Further, we agree that the sale of the divestiture of the generation assets constitutes an extraordinary event. Consistent with our past practice, the financial

> impact of the divestiture should be excluded from the SEET test. See In re Ohio Edison Co., Cleveland Elec. Illum. Co., and Toledo Edison Co., Case No. 10-1265-EL-UNC, Opinion and Order (November 22, 2010) at 3.[1]

Adjusting for AES Ohio's prior asset generation write-downs is consistent with the Commission's stated intention that the financial impact of AES Ohio's asset generation divestitures be excluded from the SEET. Additionally, the Commission has excluded the effects of extraordinary items, including fixed-asset impairments in prior proceedings. For example, in Case No. 13-1495-EL-UNC, an adjustment removing a fixed asset impairment loss was made in AES Ohio's annual filing.[2]

Q. Please explain the adjustment for AES Equity contributions 2020, 2021.

A. On June 2020, AES invested $150 million into AES Ohio, which is reflected on Line 6 "Proprietary Capital," Columns F and G of Exhibit PJD-2 as well as Line 11 "Proprietary Capital" on Columns F and G of Exhibit PJD-1. AES Ohio plans to make very large investments in its service territory over the next five years, and those investments would not be possible without the $150 million that AES has invested in June 2020 as well as the additional $150 million that AES intends to invest in AES Ohio in 2021 AES announced its plan to invest $300 million in AES Ohio because AES Ohio needed those

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[1] In the Matter of the Application of The Dayton Power and Light Company for Authority to Transfer or Sell its Generation Assets, Case No. 13-2420-EL-UNC, September 17, 2014, p. 9. (Emphasis added.)

[2] In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2012 Under the Electric Security Plan of The Dayton Power and Light Company, Case No. 13-1495-EL-UNC ("DP&L 2012 SEET Case"), Application of The Dayton Power and Light Company, Direct Testimony of Gregory S. Campbell, CPA, July 31, 2013, p. 5. In the DP&L 2012 SEET Case, the Commission approved a Stipulation and Recommendation between DP&L and Staff, which recommended that "the Commission determine that significantly excessive earnings did not occur with respect to DP&L's ESP in 2012." DP&L 2012 SEET Case, February 13, 2014, Opinion and Order, pp. 2-4. No parties intervened in that proceeding.

funds in order to make the necessary capital investments so that AES Ohio could continue to provide safe and reliable service to its customers. Pursuant to a Stipulation and Recommendation in Case No. 18-1875-EL-GRD, et al., AES Ohio has committed to invest approximately $249 million over four years to modernize its distribution grid. AES Ohio and the signatories to that Stipulation agree that those investments will provide significant benefits for customers, including improved reliability. In addition to grid modernization, AES Ohio is planning to invest $510 million over the next five years in its distribution system. AES Ohio is also planning to construct approximately $180 million in transmission enhancements as part of PJM's overall RTEP plan over the next five years. These highlight AES Ohio's more significant investment into Ohio to benefit AES Ohio customers and improve reliability. I understand that the Commission is required to "[c]onsider[]… the capital requirements of future committed investments in this state" when conducting the SEET (R.C. 4928.143(F)), which allows the Commission to recognize the longer-term nature of a Company's ROE. The Commission should do so by adding to AES Ohio's equity balance the $300 million investment that AES has made or plans to make in AES Ohio. This is reflected in line 20 "AES Equity Contributions 2020, 2021" in Exhibit PJD-2.

Q. Please explain the calculations on Exhibit PJD-2, Calculations of Per Books Return on Equity.

A. Exhibit PJD-2 shows the per books ROE using the unadjusted per books amounts from the FERC Form 1. The per books unadjusted ROE is 8.9%.

Q. Please explain Exhibit PJD-3, Future Capital Expenditures.

A. Exhibit PJD-3 shows the future estimated jurisdictional capital expenditures for the calendar year 2021 through 2025.[3] It is based on the AES Ohio's current estimates of future capital spending.

Q. Does AES Ohio pass the Retrospective SEET for 2020?

A. Yes. AES Ohio's adjusted ROE for 2020 was 3.0% as shown on line 22 of PJD-1, which is significantly lower than the Safe Harbor of 12.48% and the ROE Threshold range of 15.72% to 19.80% as set forth in the Direct Testimony of Company Witness Illyes. Additionally, the unadjusted ROE, shown on line 9 of PJD-2 is 8.9%, which is also significantly lower than the Safe Harbor and SEET Threshold range presented by Witness Illyes.

III. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes, it does.

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[3] The future estimated Ohio Capital Expenditures contained in PJD-3 is trade secret financial information that should be kept confidential. This information has not been shared outside of the Company other than counterparties in negotiation subject to non-disclosure agreements and is not disseminated to internal employees unless those employees have a legitimate business need to know the information. Public disclosure of this information would have a negative competitive impact in Ohio's market as well as the financial markets.
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Attachment A

Prior Testimony

Utility	Topic	Brief Description	Case Number
AES Ohio	Distribution Rate Case Schedules	Support schedules within the AES Ohio rate case.	20-1651-EL-AIR
Orwell-Trumbull Pipeline(OTP)	OTP bankruptcy proceeding	Relay issues the PUCO encountered with OTP and its ownership.	17-17135 U.S. Bankruptcy Court Northern District of Ohio
Duke Energy Ohio	Supporting stipulation and MRO vs ESP Test	Support the stipulation signed by multiple parties and validate that the ESP passes the MRO vs ESP test.	17-32-EL-AIR, et al.
Youngstown Thermal	Surcharge rate design, allocation and need	Defend the need for the utility to charge additional fee when facing bankruptcy.	17-1534-HC-UNC
Dayton Power & Light	Supporting stipulation and MRO vs ESP Test	Support the stipulation signed by multiple parties and validate that the ESP passes the MRO vs ESP test.	16-396-EL-SSO
Duke Energy Ohio	Energy efficiency cost cap	Purpose a cap on overall program costs and shared savings of energy efficiency rider.	16-576-EL-POR
FirstEnergy	Energy efficiency cost cap	Purpose a cap on overall program costs and shared savings of energy efficiency rider.	16-743-EL-POR
Duke Energy Ohio	Support stipulation	Support the stipulation signed by the company and Staff.	14-457-EL-RDR
Brainard Natural Gas	Support stipulation	Support the stipulation signed by the company and Staff.	13-206-GA-GCR
Gas Natural Utilities	Dispute RFP process	Raise issues with the RFP process used by the utilities.	12-209-GA-GCR
Duke Energy Ohio	Rate case expenses	Discuss Staff's proposed expense disallowances.	12-1682-EL-AIR
Dayton Power & Light	Rate design of rider	Propose changes to the design and recovery of DP&L's proposed reconciliation rider.	12-426-EL-SSO

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Calculation of Per Books Return on Equity - With Adjustments

PJD-1
Witness Responsible: Donlon

Line No. (A)	Description (B)	Calendar 2020 Income Statement (C) ($000's)	Balance Sheet December 31, 2019 (D) ($000's)	Balance Sheet March 31, 2020 (E) ($000's)	Balance Sheet June 30, 2020 (F) ($000's)	Balance Sheet September 30, 2020 (G) ($000's)	Balance Sheet December 31, 2020 (H) ($000's)	Average Beginning and Ending Balances (Col. (D)+(E)+(F)+(G)+(H))/5 = (I) ($000's)	Comments (J)
1	Earnings for Common								
2	Net Income	50,879							2020 FERC Form 1, Page 117, Line 71, Col (C)
3	Preferred Dividends	-							2020 FERC Form 1, Page 118, Line 29, Col (C)
4	Earnings for Common	50,879							Sum of Lines 2 and 3
5	Accrued Penalty in Account 426.3	5							2020 FERC Form 1, Page 117, Line 47, Col (C)
6	2020 Property tax adjustment in 2021	(710)							Accounting Records
7	2019 Property tax adjustment in 2020	(991)							Accounting Records
8	Loss on Disposition of Retired Asset	4,688							Accounting Records
9	Adjusted Earnings for Common	53,872							Sum of Lines 4 thru 8
10	Common Equity								
11	Proprietary Capital		473,504	485,465	640,066	630,261	616,569	569,173	2020 FERC Form 1, Page 112, Line 16
12	Preferred Stock Outstanding		-	-	-	-	-	-	2020 FERC Form 1, Page 112, Line 3
13	Common Equity		473,504	485,465	640,066	630,261	616,569	569,173	Sum of Lines 11 and 12
14	Accrued Penalty in Account 426.3		17	17	17	17	22	18	Accounting Records
15	2020 Property tax adjustment in 2021		-	-	(710)	(710)	(710)	(426)	Accounting Records
16	2019 Property tax adjustment in 2020		(991)	-	-	-	-	(198)	Accounting Records
17	TCJA adjustment 2019		(18,348)	(18,348)	(18,348)	(18,348)	(18,348)	(18,348)	Accounting Records
18	Generation Asset Impairments, net of gain on sale		1,008,281	1,008,281	1,008,281	1,008,281	1,008,281	1,008,281	Accounting Records
19	Loss on Disposition of Retired Asset,		9,738	9,738	9,738	9,738	14,426	10,676	Line 8 plus Prior Year
20	AES Equity contributions 2020, 2021		300,000	300,000	150,000	150,000	150,000	210,000	Accounting Records
21	Adjusted Common Equity		1,772,201	1,785,153	1,789,044	1,779,239	1,770,240	1,779,176	Sum of Lines 13 thru 20
22	Return on Equity - Base with Adjustment							3.0%	Line 9 divided by Line 21, Col (O)

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Calculation of Per Books Return on Equity - Base

PJD-2
Witness Responsible: Donlon

Line No.	Description	Calendar 2020 Income Statement	Balance Sheet December 31, 2019	Balance Sheet March 31, 2020	Balance Sheet June 30, 2020	Balance Sheet September 30, 2020	Balance Sheet December 31, 2020	Average Beginning and Ending Balances	Comments
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(Col. (D)+(E)+(F)+(G)+(H))/5 = (I)	(J)
		($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	
1	Earnings for Common								
2	Net Income	50,879							2020 FERC Form 1, Page 117, Line 71, Col (C)
3	Preferred Dividends	-							2020 FERC Form 1, Page 118, Line 29, Col (C)
4	Earnings for Common	50,879							Sum of Lines 2 and 3
5	Common Equity								
6	Proprietary Capital		473,504	485,465	640,066	630,261	616,569	569,173	2020 FERC Form 1, Page 112, Line 16
7	Preferred Stock Outstanding		-	-	-	-	-	-	2020 FERC Form 1, Page 112, Line 3
8	Common Equity		473,504	485,465	640,066	630,261	616,569	569,173	Sum of Lines 6 and 7
9	Return on Equity - Base with Adjustment							8.9%	Line 4 divided by Line 8, Col (O)

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Future Estimated Capital Expenditures

CONFIDENTIAL
PJD-3
Witness Responsible: Donlon

Line No.	Description	2021	2022	2023	2024	2025	Comments
(A)	(B)	(C) ($ millions)	(D) ($ millions)	(E) ($ millions)	(F) ($ millions)	(G) ($ millions)	(H)
1	Estimated Capital Expenditures	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	