

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the	:	Case No. 19-1121-EL-UNC
Significantly Excessive Earnings Test under	:	
Section 4928.143(F), Ohio Revised Code, and	:	
Rule 4901:1-35-03(C)(10), Ohio	:	
Administrative Code for The Dayton Power	:	
and Light Company	:	

**APPLICATION OF
THE DAYTON POWER AND LIGHT COMPANY
FOR ADMINISTRATION OF
THE SIGNIFICANTLY EXCESSIVE EARNINGS TEST**

This Application seeks a Commission Finding that The Dayton Power and Light Company ("DP&L") did not have significantly excessive earnings under Ohio Rev. Code §4928.143(F) for calendar year 2018. DP&L files this Application to enable review by this Commission of its 2018 calendar year earnings. As supported in testimony by Company Witness Craig Forestal, the Company's adjusted ROE excluding DMR revenues for calendar year 2018 is 3.5%, well below the 12 percent SEET threshold.

1. Under Ohio Rev. Code §4928.143(F), the Commission is to consider whether there were "excessive earnings as measured by whether the earned return on common equity of the electric distribution utility is significantly in excess of the return on common equity that was earned during the same period by publicly traded companies, including utilities, that face comparable business and financial risk, with such adjustments for capital structure as may be appropriate." Pursuant to Ohio Rev. Code §4928.143(F) and Ohio Administrative Code §4901:1-35-03(C)(10), DP&L requests the Commission's determination that significantly excessive earnings did not result for DP&L with respect to the annual period ending December 31, 2018.

2. In support of this requested determination, this application is supported by the following materials, required by Ohio Administrative Code §4901:1-35-03(C)(10)(a):
- a. DP&L's SEC Commission Form 10-K for the period ending December 31, 2018 is electronically available by doing a search on the SEC's website for "Dayton Power" at <http://www.sec.gov/edgar/searchedgar/companysearch.html> .
 - b. DP&L's Federal Energy Regulatory Commission Form No. 1 for the annual period ending December 31, 2018 is electronically available on FERC's website by searching "Dayton Power and Light Company" at <http://elibrary.ferc.gov/idmws/search/fercadvsearch.asp>
 - c. The attached testimony and exhibits of Company witness Craig Forestal, including DP&L's capital budget requirements which are attached as Exhibit CAF-5.

WHEREFORE, DP&L requests that the Commission determine, and find as fact, that for the annual period ending December 31, 2018, DP&L's earnings were not significantly excessive.

Respectfully submitted,

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**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

THE DAYTON POWER AND LIGHT COMPANY

CASE NO. 19-1121-EL-UNC

**ANNUAL CALENDAR 2018 FILING REQUIRED BY
RULE 4901:1-35-10, OHIO ADMINISTRATIVE CODE**

**DIRECT TESTIMONY
OF CRAIG A. FORESTAL**

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

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
CRAIG A. FORESTAL
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 Craig Forestal. My business address is One Monument Circle, Indianapolis, IN
4 46204.

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

6 A. I am employed by the AES Corporation, and serve as Director of Regulatory Accounting for its
7 United States utility businesses which include The Dayton Power and Light Company ("DP&L"
8 or "Company"), as well as Indianapolis Power & Light Company ("IPL").

9 **Q. Please summarize your work experience with AES.**

10 A. I was an employee of IPL from May 2002 through December 2013. During my tenure with IPL,
11 I worked in various positions including senior accountant, Team Leader of Corporate Accounting
12 and Director of Regulatory Accounting. I served as the primary accounting witness in regulatory
13 commission filings for IPL since 2006 and continue to serve in that capacity today. In June of
14 2013, I transitioned into my current role where I preside over regulatory accounting for both DP&L
15 and IPL. In this role, I am generally responsible for the accounting for the regulatory assets and
16 liabilities of IPL and DP&L and various reports to regulatory agencies.

17 **Q. Have you testified in front of this Commission before?**

18 A. Yes. I developed pre-filed testimony in support of DP&L's Annual Calendar 2014 Filing
19 Required by rule 4901:1-35-10, Ohio Administrative Code, or SEET in Case No. 15-928-EL-
20 UNC, as well as subsequent SEET filings in Case No. 16-920-EL-UNC and 17-1213-EL-UNC.

I also developed and submitted pre-filed testimony in DP&L's distribution rate case Nos. 15-1830-EL-AIR, 15-1831-EL-AAM and 15-1832-EL-ATA.

Q. Will you describe briefly your educational and business background?

A. I hold a Bachelor of Science Degree in Accounting from Ball State University and a Certified Public Accountant's License with the State of Indiana. I have worked as an accountant since 1991 in various industries including telephone and electric utilities, real estate investment trusts and public accounting. I have worked as an accountant in the electric utility industry since 2002.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to support the calculation of the Company's Return on Equity ("ROE") and provide the accounting and financial information required by Section 4901:1-35-10 of the Ohio Administrative Code regarding the Significant Excessive Earnings Test ("SEET"). My testimony and supporting schedules will show that DP&L's adjusted return on equity is 3.5% for the year 2018, which demonstrates that DP&L's ROE fell well below the significantly excessive earnings threshold of 12%, and therefore significantly excessive earnings did not occur at the utility.

Q. What Exhibits are you supporting?

A. I am supporting Exhibits CAF-1 through CAF-5, all of which are attached.

II. SEET BACKGROUND

Q. Why is it necessary for DP&L to show that it does not have significantly excessive earnings?

1 A. On May 1, 2008, the Governor signed into law Amended Substitute Senate Bill No. 221 (“SB
2 221”). This bill amended a number of laws involving electric utilities and requires electric
3 utilities to provide customers with a default Standard Service Offer (“SSO”) established through
4 either a Market Rate Offer (“MRO”) or an Electric Security Plan (“ESP”). Pursuant to the law,
5 the Public Utilities Commission of Ohio (“PUCO” or “the Commission”) is required to evaluate
6 the earnings of each electric distribution utility’s approved MRO or ESP and to determine
7 whether the adjustments in the MRO or ESP result in significantly excessive earnings. Certain
8 mechanics of the SEET review were included in the PUCO’s Finding and Order dated June 30,
9 2010 in Case No. 09-786-EL-UNC that developed the test pursuant to SB 221.

10 **Q. Are DP&L’s rates based upon an ESP or a MRO?**

11 A. The rates which DP&L is currently collecting are based on an ESP, approved by the Commission
12 on October 20, 2017 in Case No. 16-0395-EL-SSO.

13 **Q. Where can one find copies of DP&L’s 2018 financial statement filings with the Securities &
14 Exchange Commission (“SEC”) and the Federal Energy Regulatory Commission
15 (“FERC”)?**

16 A. DP&L’s Annual Report on Form 10-K can easily be found by doing a search on the SEC’s
17 website for “Dayton Power” at <http://www.sec.gov/edgar/searchedgar/companysearch.html> .
18 Likewise, DP&L’s FERC Financial Report FERC Form 1 can easily be found on FERC’s
19 website by searching “Dayton Power and Light Company” at
20 <http://elibrary.ferc.gov/idmws/search/fercadvsearch.asp>

1 **III. EXHIBITS AND DISCUSSION**

2 **Q. Please list the exhibits for which you are responsible.**

3 A. I am responsible for the following exhibits:

4 Exhibit CAF-1: Calculation of Per Books Return on Equity – Base

5 Exhibit CAF-2: Calculation of Per Books Return on Equity – Base with Adjustments

6 Exhibit CAF-3: Return on Equity Pro Forms – Without Major Regulatory Asset Deferrals

7 Exhibit CAF-4: Major Regulatory Asset Changes

8 Exhibit CAF-5: Future Estimated Ohio Capital Expenditures

9 **Q. Please explain Exhibit CAF-1, the Calculations of Per Books Return on Equity.**

10 A. Exhibit CAF-1 shows the per books ROE using the unadjusted per books amounts from the
11 FERC Form 1, with one exception. Per the Commission’s order in Case No. 16-395-EL-SSO
12 (Page 7, paragraph 14, j; pages 57-58), DP&L’s distribution modernization rider (“DMR”)
13 revenues are not subject to the SEET. As such, I have removed accrued DMR revenues, net of
14 income taxes, from all of the ROE calculations provided herein.

15 The overall per books ROE for calendar year 2018 reflected for this scenario in Exhibit CAF-1
16 was 1.1%.

17 **Q. Please explain Exhibit CAF-2, the Calculation of Per Books Return on Equity with**
18 **Adjustment.**

1 A. Exhibit CAF-2 has two adjustments to the per books “Adjusted Earnings for Common”
2 calculation that are incremental to Exhibit CAF-1. The first adjustment of \$17,000 adds back the
3 estimated penalties recorded in FERC Account 426.3. The second adjustment is to add-back a
4 loss on the disposal of previously retired generation assets of \$9,700,000 net of tax. This loss
5 results from the February 26, 2018 transfer of DP&L’s interest in the retired Beckjord generation
6 facility to a third-party including all obligations to remediate the facility and its site. Consistent
7 with DP&L’s 2015 SEET in case No. 16-920-EL-UNC, I have also removed the impact on
8 common equity (on an after-tax basis) of both the penalty, and the loss on disposal. The overall
9 per books ROE with the above adjustments is 3.5%.

10 **Q. What does Exhibit CAF-3 demonstrate?**

11 A. Exhibit CAF-3 demonstrates the removal of the regulatory asset deferral impact from earnings
12 and equity. I started with the Earnings for Common and Common Equity previously developed
13 on Exhibit CAF- 2. As was done on Exhibit CAF-2, I added back to earnings for common, the
14 penalties and the disposition loss and removed DMR revenues, all on an after-tax basis. I then
15 removed the major regulatory asset deferral/feedback impacts for 2018, net of tax, to arrive at the
16 adjusted earnings for common equity. The 2018 regulatory asset deferral impacts are calculated
17 separately on Exhibit CAF-4. The reversal of the major regulatory asset deferrals represents a
18 net increase in earnings. I also removed the major regulatory asset deferral from common
19 equity.

20 After removing the impact on earnings for common and adjusting common equity, the pro forma
21 ROE for the period is 4.4%.

1 **Q. In previous years, DP&L also provided an ROE calculation that removed sales for resale.**
2 **Have you provided such a calculation this year?**

3 A. No. As I described in my 2017 SEET testimony, on October 1, 2017, after receiving approval
4 from FERC, DP&L completed the transfer of its generating plants, the real property on which the
5 generation plants and generation-related assets are sited, step-up transformers and other
6 transmission plant assets used to interconnect with the electric transmission grid, fuel inventory,
7 equipment inventory and spare parts, working capital, and other miscellaneous generation-related
8 assets and liabilities to AES Ohio Generation. As a result of this transfer, it is no longer
9 necessary to exclude sales for resale from the SEET.

10 **Q. Please explain the major regulatory asset changes on the Exhibits CAF-4.**

11 A. Exhibit CAF-4 summarizes the major regulatory asset balances at the beginning and end of the
12 calendar 2018 to reflect the changes as the net impact of deferrals for each period. The exhibit
13 also shows the after-tax impact of each item using DP&L's statutory tax rates. The results of this
14 exhibit is used on Exhibit CAF-3, lines 8 and 33.

15 **Q. Please explain Exhibit CAF-5, Future Estimated Ohio Capital Expenditures.**

16 A. Exhibit CAF-5 shows the future estimated Ohio jurisdictional capital expenditures for each of
17 the calendar years 2019 through 2023.¹ It is based on DP&L's current estimates of future capital

¹ The future estimated Ohio Capital Expenditures for 2022 and 2023 contained in CAF-5 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.

1 spending based on its filings before the Commission. I did not adjust the 2018 ROE to consider
2 these planned investments.

3 **Q. Has the Commission established a SEET threshold applicable to DP&L?**

4 A. Yes, the Commission's order in Case No. 16-395-EL-SSO (Page 7, paragraph 14, j) established
5 a SEET threshold of 12% as the appropriate level to compare DP&L's earnings to meet the
6 SEET threshold established in the law.

7 **IV. CONCLUSION**

8 **Q. Please summarize your testimony.**

9 A. In summary, the appropriate threshold against which to compare DP&L's earnings for 2018 in
10 order to establish that significantly excessive earnings after adjustments did not occur is 12%.
11 DP&L's adjusted ROE for calendar year 2018 is 3.5%, as calculated on Exhibit CAF-2. Based
12 upon this 3.5% ROE, DP&L did not have significantly excessive earnings in calendar year 2018.

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

14 A. Yes, it does.

The Dayton Power and Light Company
Case No. 19-1121-EL-UNC

Calculation of Per Books Return on Equity - Base

Exhibit CAF-1
Page 1 of 1

Line No.	Description	Calendar 2018 Income Statement	Balance Sheet December 31, 2017	Balance Sheet December 31, 2018	Average Beginning and Ending Balances	Comments
(A)	(B)	(C) (\$000's)	(D) (\$000's)	(E) (\$000's)	(Col. (D)+(E))/2 = (F) (\$000's)	(G)
1	<u>Earnings for Common</u>					
2	Net Income	86,695				2018 FERC Form 1, Page 117, Line 71, Col (C)
3	Distribution Modernization Revenues	(82,570)				Accounting Records
4	Preferred Dividends	-				2018 FERC Form 1, Page 118, Line 29, Col (C)
5	Earnings for Common	<u>4,125</u>				Sum of Lines 2 thru 4
6	<u>Common Equity</u>					
7	Proprietary Capital		330,582	445,143	387,863	2018 FERC Form 1, Page 112, Line 16
8	Preferred Stock Outstanding		-	-	-	2018 FERC Form 1, Page 112, Line 3
9	Common Equity		<u>330,582</u>	<u>445,143</u>	<u>387,863</u>	Line 7 plus Line 8
10	Return on Equity - Base				<u>1.1%</u>	Line 5 divided by Line 9, Col (F)

The Dayton Power and Light Company
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Calculation of Per Books Return on Equity - Base with Adjustments

Exhibit CAF-2
Page 1 of 1

Line No.	Description	Calendar 2018 Income Statement	Balance Sheet December 31, 2017	Balance Sheet December 31, 2018	Average Beginning and Ending Balances	Comments
(A)	(B)	(C) (\$000's)	(D) (\$000's)	(E) (\$000's)	(F) (Col. (D)+(E))/2 = (F) (\$000's)	(G)
1	<u>Earnings for Common</u>					
2	Net Income	86,695				2018 FERC Form 1, Page 117, Line 71, Col (C)
3	Distribution Modernization Revenues	(82,570)				Accounting Records
4	Preferred Dividends	-				2018 FERC Form 1, Page 118, Line 29, Col (C)
5	Earnings for Common	4,125				Sum of Lines 2 thru 4
6	Accrued Penalty in Account 426.3	17				2018 FERC Form 1, Page 117, Line 47, Col (C)
7	Loss on Disposition of Retired Asset	9,700				Accounting Records
8	Adjusted Earnings for Common	<u>13,842</u>				Sum of Lines 5 thru 8
9	<u>Common Equity</u>					
10	Proprietary Capital		330,582	445,143	387,863	2018 FERC Form 1, Page 112, Line 16
11	Preferred Stock Outstanding		-	-	-	2018 FERC Form 1, Page 112, Line 3
12	Common Equity		330,582	445,143	387,863	Line 10 plus Line 11
13	Accrued Penalty in Account 426.3		-	17	9	Line 6
14	Loss on Disposition of Retired Asset		-	9,700	4,850	Line 7
15	Adjusted Common Equity		<u>330,582</u>	<u>454,860</u>	<u>392,722</u>	Sum of Lines 12 thru 14
16	Return on Equity - Base with Adjustment				<u>3.5%</u>	Line 8 divided by Line 15, Col (F)

The Dayton Power and Light Company
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Return on Equity Pro Formas - Without Major Regulatory Asset Deferrals

Exhibit CAF-3
Page 1 of 1

Line No.	Description	Calendar 2018 Income Statement	Balance Sheet December 31, 2017	Balance Sheet December 31, 2018	Average Beginning and Ending Balances	Comments
(A)	(B)	(C) (\$000's)	(D) (\$000's)	(E) (\$000's)	(Col. (D)+(E))/2 = (F) (\$000's)	(G)
1	<u>Earnings for Common</u>					
2	Net Income	86,695				2018 FERC Form 1, Page 117, Line 71, Col (C)
3	Distribution Modernization Revenues	(82,570)				Accounting Records
4	Preferred Dividends	-				2018 FERC Form 1, Page 118, Line 29, Col (C)
5	Earnings for Common	4,125				Sum of Lines 2 thru 4
6	Accrued Penalty in Account 426.3	17				2018 FERC Form 1, Page 117, Line 47, Col (C)
7	Loss on Disposition of Retired Asset	9,700				Accounting Records
8	Major Regulatory Asset Deferrals	3,258				Exhibit CAF-4, Page 1 of 1, Line 13
9	Adjusted Earnings for Common	17,100				Sum of Lines 5 thru 8
10	<u>Common Equity</u>					
11	Proprietary Capital		330,582	445,143	387,863	2018 FERC Form 1, Page 112, Line 16
12	Preferred Stock Outstanding		-	-	-	2018 FERC Form 1, Page 112, Line 3
13	Common Equity		330,582	445,143	387,863	Line 10 plus Line 11
14	Reduction of Accrued Penalty in Account 426.3		-	17	9	Line 6
15	Loss on Disposition of Retired Asset		-	9,700	4,850	Line 7
16	Major Regulatory Asset Deferrals		(10,844)	3,258	(3,793)	Line 8
17	Adjusted Common Equity		319,739	458,118	388,929	Sum of Lines 13 thru 16
18	Return on Equity - Without Major Regulatory Asset Deferrals				4.4%	Line 9 divided by Line 17, Col (F)

The Dayton Power and Light Company
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Major Regulatory Assets Changes

Exhibit CAF-4
Page 1 of 1

Line No.	Description	2018	2017	Change Before Tax Impact	Change After Tax Impact	Comments
(A)	(B)	(C)	(D)	(E) (\$000's)	(F) (\$000's)	(G)
1	<u>Impact on 2018 Earnings Favorable (Unfavorable)</u>					
2	Fuel and purchased power recovery costs	8,373	14,462	(6,089)	(4,774)	Per Accounting Records
3	Energy efficiency program	9,744	(10,600)	20,344	15,950	Per Accounting Records
4	TCRR	(20,105)	3,951	(24,056)	(18,860)	Per Accounting Records
5	Competitive bidding	(1,197)	(3,824)	2,627	2,060	Per Accounting Records
6	Regulatory Compliance Rider	9,790	13,834	(4,044)	(3,170)	Per Accounting Records
7	Deferred Storms	10,150	4,278	5,872	4,604	Per Accounting Records
8	Decoupling Rider	11,040	1,656	9,384	7,357	Per Accounting Records
9	Deferred ESP Rate Case Expenses	-	4,997	(4,997)	(3,918)	Per Accounting Records
10	Deferred Pension/Benefit Costs	87,514	92,441	(4,927)	(3,863)	Per Accounting Records
11	Reconciliation Rider	(2,912)	(42)	(2,870)	(2,250)	Per Accounting Records
12	Vegetation Management Deferral	4,600	-	4,600	3,606	Per Accounting Records
13	Total	<u>116,997</u>	<u>121,153</u>	<u>(4,156)</u>	<u>(3,258)</u>	Sum of Lines 2 thru 12

The exhibit shows the 2018 earnings impact of DP&L's major regulatory asset deferrals.
Column (F) is the product of Column (E) times the inverse of the tax rate of 21.6%.

The Dayton Power and Light Company
Case No. 19-1121-EL-UNC

Future Estimated Ohio Capital Expenditures

Exhibit CAF-5
Page 1 of 1

Line No.	Description	2019	2020	2021	2022	2023	Comments
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
		(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	
1	Ohio Estimated Capital Expenditures	<u>140</u>	<u>221</u>	<u>260</u>			

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Case No(s). 19-1121-EL-UNC

Summary: Application of The Dayton Power Light Company for administration of the Significantly Excessive Earnings Test electronically filed by Mr. Hani S Jaber on behalf of The Dayton Power and Light Company