

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of                    )  
The Dayton Power and Light Company to        )  
Increase Its Rates for Electric Distribution      )        Case No. 15-1830-EL-AIR

In the Matter of the Application of                    )  
The Dayton Power and Light Company for        )  
Accounting Authority                                )        Case No. 15-1831-EL-AAM

In the Matter of the Application of                    )  
Dayton Power and Light Company for            )  
Approval of Revised Tariffs                        )        Case No. 15-1832-EL-ATA

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**DIRECT TESTIMONY OF J. EDWARD HESS  
ON BEHALF OF  
RETAIL ENERGY SUPPLY ASSOCIATION  
AND INTERSTATE GAS SUPPLY, INC.**

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**July 16, 2018**

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

2 A. My name is J. Edward Hess. I am a self-employed consultant.

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

4 A. I am testifying on behalf of Retail Energy Supply Association (RESA) and Interstate Gas  
5 Supply, Inc. (IGS).

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

7 A. I have a Bachelor of Business Administration degree from Ohio University and  
8 completed most of Capital University's Master of Business Administration program. I am  
9 a certified public accountant (presently inactive). I was employed by the Public Utilities  
10 Commission of Ohio in 1975 as a field auditor. I resigned from the Commission in 1977  
11 and joined the public accounting firm of John Gerlach and Company. I rejoined the  
12 Commission in July 1980. In March 2009, I retired from the Commission after over 30  
13 years of employment. My last position with the Commission was as the Chief of the  
14 Accounting and Electricity Division of the Utilities Department. In that capacity, I was  
15 responsible for ensuring statutory compliance with state and federal statutes, rules and  
16 procedures governing utility regulation with most of that responsibility focused on the  
17 electric sector. I was also responsible for analyzing and testifying to a whole variety of  
18 financial data regarding all utilities regulated by the Commission. From October 2009  
19 through May 2015, I was employed by McNees Wallace & Nurick as a technical  
20 specialist where I provided practical insight and analytical expertise on regulatory and  
21 legislative issues to the business community. I also provided expert testimony on behalf  
22 of the firm's clients in regulatory hearings before the Commission. I have attended and  
23 completed numerous continuing education courses relevant to the regulation of public

1 utilities and my accounting profession. I have also participated in regulatory conferences  
2 and training seminars and have served as a workshop presenter at the annual energy  
3 conference sponsored by the Manufacturers' Education Council.

4 **Q. Were you involved with Ohio's electric restructuring as a member of the PUCO**  
5 **Staff?**

6 A. Yes. In 1999, I began working with Chairman Glazer on the restructuring of the electric  
7 industry. The first Johnson-Mead bill had been proposed, the utilities countered with their  
8 own version and everyone involved was working on the second version of Johnson-Mead  
9 that eventually became known as Senate Bill 3. The bill passed in July 1999. Before the  
10 bill was passed Alan Schreiber became the chairman of the PUCO and I continued my  
11 work on the legislation with Chairman Schreiber.

12 After the legislation passed, I was given the responsibility of managing the Staff's  
13 efforts to implement the bill. That included processing electric transition plans (called  
14 "ETP") and developing rules that were required by the legislation. At the time of the  
15 legislation there were 8 electric distribution companies that were required to file  
16 transition plans per the legislation. The issues that were addressed in the ETP filings and  
17 the rules that were required are too numerous to list here. We completed the required  
18 tasks on time and we were ready for the transition on January 1, 2001.

19 Sometime in late 2002 and early 2003 – shortly after the California Energy Crisis  
20 and Enron's collapse -- there was a general belief that the Ohio industry was not ready for  
21 a flash cut to market-based rates on January 1, 2006. We began discussing a longer  
22 transition period with all interested parties. I was again given the responsibility of  
23 coordinating the Staff efforts. We successfully implemented rate stabilization plans for an

1 additional three or four years with all the utility distribution companies except  
2 Monongahela Power Ohio. Monongahela Power was eventually purchased by Columbus  
3 Southern after several negotiations and litigations. Eventually, additional legislation, SB  
4 221, was enacted. Among other things, the legislation provided the PUCO with additional  
5 flexibility to deal with actual circumstances that were different than anticipated when SB  
6 3 was enacted.

7 As a Staff member, I did help with processing the first round of electric security  
8 plans for AEP and First Energy that were put into effect in 2009.

9 **Q. What was your involvement with Ohio's electric restructuring as a member of the**  
10 **McNees Wallace and Nuriuck?**

11 A. I testified before the PUCO in several SSO cases that were filed in the second round of  
12 cases. I also submitted testimony in Ohio Power Company's and Columbus Southern  
13 Power Company's Distribution Rate Case and Fuel cases.

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

15 A. The purpose of my testimony is to support Objections to the Staff Report of Investigation  
16 filed on April 11, 2018 that were not addressed in the Stipulation filed June 18, 2018.  
17 Specifically, I am recommending that Dayton Power and Light Company (Dayton) be  
18 required to unbundle the distribution costs required to process and administer the  
19 standard service offer (SSO) and allocate those costs to SSO customers directly rather  
20 than allocating those costs to all customers including shopping customers. The result of  
21 this allocation is three-fold. First, it ensures that non-shopping customers pay for all the  
22 services that they receive. Second, and conversely to my first point, it ensures that  
23 shopping customers are not charged for services that they do not receive. Third, the

1 ultimate result of my proposed allocation is to eliminate an existing subsidy that  
2 artificially lowers the price of SSO service. Thus, my proposed allocation provides a  
3 more level playing field between the SSO and services available in the competitive  
4 market.

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

6 A. I recommend that the Public Utilities Commission of Ohio (PUCO or Commission)  
7 establish a credit rider for all customers allowing them to avoid distribution costs that  
8 support the SSO administrative and processing costs. I am also recommending that the  
9 Commission create an avoidable rider that collects these costs directly from non-  
10 shopping customers.

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

12 A. The net impact of my proposal would result in a credit rider detailed by class of customer  
13 on Exhibit JEH-1 to all customers and an avoidable rider charge also detailed by  
14 customer class on Exhibit JEH-1 to non-shopping customers. The net impact will leave  
15 Dayton revenue neutral. Unbundling and reallocating these costs to the non-shopping  
16 customers and adding the cost to the advertised price-to-compare will continue the  
17 Commission's long-standing practice of appropriately allocating costs to cost causers as  
18 well as eliminating barriers for customers to leave the SSO and shop for a competitive  
19 retail supplier. This is also consistent with the State's policy to ensure the availability of  
20 unbundled and comparable retail electric service and corrects for the current problem of  
21 subsidization by the regulated utility.

22 **Q. What is the SSO?**

1 A. The SSO is a statutory requirement that the electric distribution utility must provide its  
2 customers a firm supply of electric generation service when there is a failure of a supplier  
3 to provide retail electric generation service. The service must be on an unbundled,  
4 comparable, and nondiscriminatory basis.

5 **Q. Was the SSO intended to be a competitive service?**

6 A. No. The SSO is intended to simply be a back-up service for customers that haven't  
7 decided on a retail competitive offer or were between competitive service providers.

8 **Q. Did the Commission address the issue of administrative costs in Dayton's last SSO  
9 case? <sup>1</sup>**

10 A. Yes. The Commission approved a stipulation that included a provision that there would  
11 be an evaluation of costs contained in this case that may be necessary to provide standard  
12 service offer service.<sup>2</sup>

13 **Q. Does the Staff address the issue in its Staff Report?**

14 A. Yes, to some extent. The Staff stated that it attempted to evaluate the costs contained in  
15 the distribution rates that are necessary to provide standard service offer service and  
16 would be removed from Dayton distribution expenses if SSO service was no longer a  
17 default service, and those costs that are not already recovered through a by-passable  
18 charge.

19 **Q. Did the Staff Report provide the evaluation that was agreed to in the SSO  
20 stipulation?**

21 A. Not at all. The issue that was stipulated to in the SSO case requested an evaluation of  
22 costs contained in distribution rates that are necessary to provide standard service offer

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<sup>1</sup> Case No. 16-395-EL-SSO

<sup>2</sup> Case No. 16-395-EL-SSO, Opinion and Order page 8 (Oct. 20, 2017).

1 service. The Staff added an additional standard that the costs will also be removed from  
2 Dayton distribution expenses if SSO service was no longer a default service.

3 We are not recommending that the SSO service no longer be the default service.  
4 Cost allocation is not an avoidable expense issue that reduces the revenue requirement  
5 calculation. It is a cost of service allocation issue. Costs that are necessary to provide  
6 standard service customers may not reduce the revenue requirements of the distribution  
7 company in the short term. However, these costs are necessary to administer and process  
8 the SSO portion of an SSO customer's service and should be allocated to the SSO  
9 customer rather than socialized to all distribution customers.

10 **Q. The Staff states that Dayton is unable to quantify different costs between shopping**  
11 **and non-shopping customers and expressed that it would be prohibitively expensive**  
12 **to track costs for the functions of administering the competitive retail market or**  
13 **providing a standard service offer. Are you recommending that these costs be**  
14 **tracked and individually identified?**

15 A. No. We agree that tracking these costs individually could be expensive, although Dayton  
16 has not identified how expensive that process would be. Regardless, that is why we are  
17 recommending a cost of service allocation methodology that approximates the costs  
18 incurred by Dayton in providing this service. It is the industry's acceptable methodology  
19 to identify costs between different types of customers when tracking costs is prohibitively  
20 expensive.

21 **Q. The Staff also states that all the costs Dayton incurs to provide particular services to**  
22 **or on behalf of shopping and non-shopping customers are appropriately assigned to**  
23 **the distribution function of Dayton because a distribution utility is required by law**

1 **to offer a standard service offer and has obligations with regard to administering**  
2 **aspects of the competitive market. Do you agree?**

3 A. No. While I agree that Dayton must make an SSO available to customers, I do not agree  
4 that Dayton must charge all customers equally to make available that service. Much like  
5 how Dayton charges different distribution customer classes different costs, because the  
6 cost of service is different, Dayton must also charge SSO customers differently because  
7 their cost of service is different from Choice customers.

8 **Q. What kind of costs should be allocated to the SSO customers and not socialized to**  
9 **all customers so that the SSO and CRES service and prices are comparable?**

10 A. Company costs that are incurred to process and administer SSO service should be  
11 allocated to SSO customers only. These costs are like the costs that are required of the  
12 CRES providers to administer and process shopping customers generation service. The  
13 intent is to unbundle these costs from distribution rates and thereby make SSO service  
14 and the price comparable to competitive retail service prices.

15 **Q. Can you give a specific example of the type of costs that a CRES provider is**  
16 **required to incur to comply with these rules?**

17 A. Yes. OAC Section 4901:1-21-08(B) requires CRES providers to investigate customer  
18 complaints and provide a status report within three business days following receipt of the  
19 complaint. This rule requires CRES providers to staff and educate a complaint  
20 department and be prepared to respond to any complaint that a customer initiates.  
21 Similarly, OAC Section 4901:1-10-21(C) requires each electric utility investigate  
22 customer/consumer complaints and provide a status report within three business days of



1 the date of receipt of the complaint. The costs of replying to complaints related to the  
2 SSO service should be allocated to the SSO customer.

3 **Q. Does the electric distribution company include these costs in the price for the SSO**  
4 **when it responds to a complaint about the SSO?**

5 A. No. These costs are accounted for in FERC account 903 and are included in this  
6 application as an electric distribution company expense. The costs are allocated to the  
7 rate schedules but are not otherwise allocated between SSO customers and shopping  
8 customers.

9 **Q. Do shopping customers avoid any SSO costs incurred by Dayton to administer and**  
10 **process the SSO?**

11 A. No. As I mentioned above, these costs are not currently reflected in the SSO price but  
12 rather bundled into distribution rates and recovered from all distribution customers.

13 **Q. Generally, what other services are required by CRES providers to provide service**  
14 **to shopping customers that the electric distribution utility must also provide to non-**  
15 **shopping customers?**

16 A. Other types of costs would include providing minimum standards for customer service  
17 quality, safety, and reliability, providing consumers with sufficient information to make  
18 informed decisions about competitive retail electric service, protect consumers against  
19 misleading, deceptive, unfair, and unconscionable acts and practices in the marketing,  
20 solicitation, and sale of CRES and in the administration of any contract for that service,  
21 establish and maintain records and data sufficient to verify its compliance with the  
22 requirements of any applicable commission rules and support any investigation of  
23 customer complaints, maintain those records for no less than two years, establish

1 reasonable and nondiscriminatory creditworthiness standards, require a deposit or other  
2 reasonable demonstration of creditworthiness from a customer as a condition of  
3 providing service, provide reasonable access to its service representatives, a customer  
4 complaint process, environmental disclosures, timely provide to the customer up to  
5 twenty-four months of the customer's payment history, net-metering service and  
6 customer billing and payments.

7 **Q. Has the Commission recognized that there are certain distribution company costs,**  
8 **beyond the generation costs, that are specific to SSO customers and allocated those**  
9 **costs directly to the SSO customers?**

10 A. Yes. The Commission approved a settlement in Dayton's last SSO case that authorized an  
11 uncollectible recovery mechanism that separates the unavoidable recoverable  
12 uncollectible costs from the avoidable SSO uncollectible costs.<sup>3</sup> My recommendation in  
13 this case further identifies that there are administrative and processing costs associated  
14 with these uncollectible expenses that should also be allocated to the SSO customer. The  
15 company has identified at least \$1.4 million of these administrative costs that are  
16 included in the test year expenses and not recovered through the uncollectible expense  
17 rider.<sup>4</sup>

18 **Q. Does Dayton charge the CRES providers for services that the CRES providers must**  
19 **recover through their rates but that are not included in the SSO rates?**

20 A. CRES providers often must pay Dayton additional fees: for example, switching fees,  
21 billing fees, and interval data fees. In the test year alone, CRES suppliers and their

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<sup>3</sup> *Id.* at 14.

<sup>4</sup> Dayton's response to IGS Interrogatory INT-3-4.

1 customers paid Dayton \$247,120 in switching fees.<sup>5</sup> These fees likely exceeded \$1  
2 million since 2012.<sup>6</sup> Customers are not required to pay switching fees to return to the  
3 SSO.<sup>7</sup> Moreover, Dayton charges CRES providers \$150 for each interval data request.  
4 During the test year, CRES providers paid Dayton \$339,300 in interval data fees.<sup>8</sup> The  
5 historical usage fees amounted to over \$500,000 in 2016 alone, and approximately \$2.7  
6 million since 2012.<sup>9</sup> Each of the fees discussed above are separate and apart from internal  
7 costs that CRES providers must incur to make a competitive product available and must  
8 recover these costs through their rates.

9 **Q. How many customers are served by the SSO?**

10 A. During 2016, there were approximately 275,000 customers served<sup>10</sup> by the SSO which  
11 generated approximately \$280 million of revenue.<sup>11</sup> It is impossible that there are no  
12 processing and administrative costs associated with this number of customers and this  
13 amount of revenue.

14 **Q. Does the SSO rate currently reflect the full cost of SSO service?**

15 A. No. As I have stated, the SSO rate is artificially low because it is only a wholesale pass-  
16 through of commodity costs. It does not include all other additional costs incurred by  
17 Dayton necessary to process and administer SSO service.

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<sup>5</sup> Dayton Supplemental Response to IGS-INT-4-3.

<sup>6</sup> *Id.* According to this discovery response, Dayton lacked data for 2013, 2014, and a portion of 2015, but in no year where complete information was available were fees less than \$223,000.

<sup>7</sup> The terms of this charge are set forth on Tariff Sheet Tariff Sheet D34.

<sup>8</sup> Dayton Supplemental Response to IGS-INT-4-2.

<sup>9</sup> *Id.*

<sup>10</sup> Staff's "Summary of Switch Rates from EDUs to CRES Providers in Terms of Customers For the Month Ending March 31, 2016," available at <https://www.puco.ohio.gov/industry-information/statistical-reports/electric-customer-choice-switch-rates-and-aggregation-activity/electric-switch-rates-by-customer/customers-2016-pdf/>.

<sup>11</sup> Dayton's response to IGS 1st Set INT-1 Attachment 1

1 **Q. What is the effect of shopping customers paying SSO administrative and processing**  
2 **costs to Dayton?**

3 A. Shopping customers are subsidizing the costs of non-shopping customers through the  
4 distribution rates.

5 **Q. How does an artificially low SSO rate effect competition?**

6 A. Artificially low SSO rates have a negative effect on competition. The artificially low  
7 default rate makes customers less likely to shop. The SSO price is a product that all  
8 products compete against. To the extent that the SSO is subsidized and artificially low, it  
9 harms all other products that must compete against the SSO. Ultimately, subsidizing the  
10 SSO leads to less competition in the Dayton service territory and fewer products being  
11 available to customers.

12 **Q. If the SSO rate is artificially low, does that mean the distribution rates are**  
13 **artificially high for shopping customers?**

14 A. Yes. As I mentioned above, all SSO administrative and processing costs are recovered  
15 through distribution rates from all customers. If the portion of administrative and  
16 processing costs attributable to SSO service were instead unbundled, allocated and  
17 recovered from SSO customers, the distribution rates for shopping customers would be  
18 lower.

19 **Q. How would your recommendation to unbundle the SSO administrative costs affect**  
20 **customers?**

21 A. The distribution rate would be as proposed by the Staff, subject to potential changes to  
22 account for SSO-related costs that Staff did not recommend Dayton collect for

1 ratemaking purposes.<sup>12</sup> I am recommending that all customers receive a credit rider to  
2 eliminate the administrative and processing SSO costs and that only SSO customers be  
3 required to pay a separate avoidable rider to recover these costs. The net impact to SSO  
4 customers is an increase and the net impact to shopping customers is a decrease.

5 **Q. Would unbundling reduce the penalty currently incurred for customers that shop?**

6 A. Yes. The portion of currently unavoidable processing and administrative costs that are  
7 included in the distribution rates would become avoidable.

8 **Q. Would unbundled distribution and SSO rates result in a default utility product that  
9 is more comparable to products offered by competitive suppliers?**

10 A. Yes. Both the utility and supplier product would better reflect the true cost of service. It  
11 would be a more accurate apples-to-apples comparison.

12 **Q. Is unbundling consistent with state policies reflected in R.C. 4928.02?**

13 A. Yes. It would ensure effective competition in the provision of retail electric service by  
14 avoiding anticompetitive subsidies flowing from a noncompetitive retail electric service  
15 to a competitive retail electric service or to a product or service other than retail electric  
16 service by prohibiting the recovery of any generation-related costs through distribution  
17 rates. Moreover, it would ensure the availability of unbundled, comparable, and  
18 nondiscriminatory retail electric service.

19 **Q. Should the Commission continue to take measures that would encourage customers  
20 to engage in Ohio's competitive retail electric markets?**

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<sup>12</sup> The Staff Report recommended that Dayton not be permitted to collect rate case expenses associated with Dayton's electric security plan case. Also, the Staff Report did not recommend that Dayton collect a cash working capital allowance associated with the provision of SSO service.

1 A. Yes. The Commission should continue to adopt measures for moving Ohio’s competitive  
2 retail electric markets forward in a way that encourages customer engagement. In order  
3 for customers to be more willing to adopt value-added products and services that enable  
4 them to use and consume energy more efficiently, customers must be engaged in the  
5 competitive retail electric market. Unfortunately, the current SSO service discourages  
6 customer engagement and encourages customers to view electric service as a commodity-  
7 only product. I encourage the Commission to adopt proposals that encourage customers  
8 to affirmatively choose a retail electric product based on the preferences of the customer  
9 and the true cost of the service.

10 **Q. Have you determined what type of costs should be unbundled?**

11 A. Yes. There are many costs Dayton incurs through the distribution company that are  
12 required to administer and support SSO service and should be unbundled and allocated to  
13 the non-shopping customers. Those costs include but are not limited to:

- 14 • Call center infrastructure and employees to maintain appropriate  
15 customer service and customer complaints for SSO customers;
- 16 • Printing and postage to communicate with SSO customers;
- 17 • Accounting infrastructure and employees to establish and maintain records and  
18 data sufficient to verify compliance with any Commission rules for SSO  
19 customers;
- 20 • IT employees, infrastructure, and software;
- 21 • Administrative and general salaries and infrastructure to comply with the  
22 regulatory rule requirements for the SSO service and oversee minimum standards  
23 for service quality, safety and reliability and to manage the risks of providing the  
24 service;
- 25 • Outside and inside legal, regulatory, and compliance personnel to  
26 comply with the regulatory rule requirements for the SSO;
- 27 • Administrative and processing costs for uncollectible;

- 1 • Office space for employees to provide these services;
- 2 • The regulatory assessments for the PUCO and the Ohio Consumers’
- 3 Counsel (OCC) that are based on SSO generation revenue, but are
- 4 recovered through distribution rates;
- 5 • Taxes Other than Income Taxes such as labor taxes, property taxes and excise
- 6 taxes associated with other costs to support SSO service.

7 **Q. Where does Dayton account for these costs?**

8 A. According to the FERC Uniform System of Accounts, Dayton accounts for these  
 9 expenses in FERC categories Customer Accounting Expense, Customer Service and  
 10 Information Expense, Sales Expense, Administrative and General Expenses and Taxes  
 11 Other than Income Taxes Expense. The plant that would support these costs would be  
 12 accounted for in Dayton’s accounts for common plant.

13 **Q. Would your unbundling recommendation inhibit Dayton’s ability to recover its**  
 14 **costs?**

15 A. No. Dayton will continue to recover these costs. It will just recover them from shopping  
 16 and non-shopping customers in a different proportion.

17 **Q. Have you calculated the level of costs that should be unbundled from distribution**  
 18 **rates and instead recovered from non-shopping customers?**

19 A. Yes. A summary of my recommendation is below.

	<b>Residential</b>	<b>Comercial</b>	<b>Industrial and Other</b>
Credit Rate to All Customers	\$ (0.0020050)	\$ (0.0003035)	\$ (0.0000076)
Avoidable Rider to Non-Shoppers	\$ 0.003804	\$ 0.001332	\$ 0.000035

20

21 **Q. Will you explain your calculation?**

1 A. I reviewed the Schedule C-2.1 and have identified several accounts included in  
2 distribution expenses that would include the type of expenses I discussed earlier. These  
3 accounts are included in the FERC categories Customer Accounts Expense, Customer  
4 Service and Information Expense, Sales Expense, Administrative and General Expenses  
5 and Taxes Other Than Income Taxes. I reviewed these categories by specific FERC  
6 account to identify the accounts that would include costs that should be allocated to SSO  
7 customers. These accounts include costs such as PUCO and OCC assessments, legal and  
8 regulatory expenses, payroll taxes, call center costs, accounting costs, infrastructure  
9 costs, and several other categories of costs I have identified throughout my testimony.  
10 These accounts, which I have identified, contain costs that are being incurred to process  
11 or administer to the SSO. For instance, Customer Account Expense contains costs for  
12 receiving, recording, and handling of inquiries, complaints, and requests for  
13 investigations from customers, including SSO customers. Dayton also recovers items  
14 such as the PUCO and OCC assessment, legal and compliance and other costs required to  
15 support the SSO service through the General and Administrative account. These are items  
16 that directly support SSO customers. The accounts that I selected are identified on JEH-2.

17 **Q. How did you arrive at the allocated costs?**

18 A. I started with the unadjusted C-2.1 expenses and included the Staff's proposed  
19 adjustments by FERC account. I then eliminated expenses that would have been directly  
20 associated with expenses and investments outside of the five categories. For example,  
21 there are labor costs included in FERC accounts that I am not including in my analysis,  
22 so I eliminated taxes that are associated with those labor expenses. The Staff's adjusted  
23 Pension and Benefits expense is included, in total, in FERC account 926 so I eliminated



1 the portion of those expenses that were not associated with the accounts that I am  
2 including in my analysis. I allocated Property Insurance and Property Taxes based on the  
3 net plant investment. That brought me to the adjusted expenses.

4 The adjusted expenses listed in each category support both distribution service  
5 and SSO service and need to be allocated to both services. I developed an allocation  
6 factor based upon the relationship of Dayton's SSO revenue to total Dayton revenue and  
7 an allocation factor based on a weighted customer count allocator.

8 Specifically, I divided Dayton's SSO revenue by Dayton's total revenue collected  
9 from customers to get the revenue allocation factor. For the weighted customer count  
10 allocation factor, I accounted for SSO customers as both distribution customers and  
11 generation customers and accounted for shopping customers as only distribution  
12 customers. Both allocators are calculated on my Exhibit JEH-4.

13 **Q. Were you able to identify rate base items that should be included in this**  
14 **recommendation?**

15 A. Yes. Most of the plant to support the SSO process would be included in Dayton's  
16 accounts for General Plant. I performed a similar allocation that I did in the expense  
17 analysis and converted the allocated rate base to a revenue requirement amount. The  
18 results are included on Exhibit JEH-3.

19 **Q. Why did you choose SSO revenue and a weighted number of customers to calculate**  
20 **your allocation factors?**

21 A. The Customer Accounts Expenses and the Customer Service and Information Expenses  
22 that I allocated are customer related expenses. These expenses vary by numbers of  
23 customers. I applied a weighted customer allocation ratio to these expenses consistent

1 with that relationship. The ratio was weighed to account for the costs to support  
2 distribution service for CRES customers and distribution and generation service for SSO  
3 customers.

4 I chose to allocate Administrative and General Expenses and Rate Base based on  
5 the amount of SSO revenue Dayton receives from customers. A utility company's  
6 revenues provide a proxy for and generally mirror the costs that are required to provide  
7 the utility service to various customer categories.

8 **Q. What is the total amount you have identified that should be allocated to SSO  
9 generation service?**

10 **A.** The total amount I have identified is in Exhibit JEH-1.

11 **Q. How should the amount identified on JEH-1 be collected?**

12 **A.** The amounts that I have identified are already included in the Staff's proposed rates. The  
13 costs first need to be excluded from the Staff's proposed rates by calculating a volumetric  
14 credit rider that will be applied to all customers. The rider is calculated by customer class  
15 by dividing the total amount per class by the total sales (shopping and non-shopping  
16 customers) per class.

17 These same costs will then be charged to the SSO customer by creating an  
18 avoidable rider by customer class. The amount per kWh would be calculated by dividing  
19 the identified costs by the SSO sales by customer class.

20 The rider/credit structure provides a revenue-neutral mechanism for Dayton while  
21 also allocating costs more equitably, it provides a better comparison for shopping  
22 customers furthering the Commission's desires to provide shopping incentives to

1 customers, and it would eliminate the subsidization that the distribution company is  
2 currently providing the SSO customers.

3 **Q. Would the riders need to be trued-up periodically to prevent any over-or under-**  
4 **recovery of revenue by Dayton?**

5 **A.** Yes. Under my proposal, both the credit rider and the avoidable rider would have to be  
6 adjusted periodically to reflect the changing shopping levels in the Dayton service  
7 territory. The changes in shopping levels would require an update to the revenues  
8 percentage, the weighted customer's percentage and the sales statistics used to calculate  
9 the volumetric rates. I do not recommend that the adjusted expense in the five categories  
10 or the rate base be adjusted.

11 Therefore, I recommend that every 6 months Dayton re-calculate both the credit  
12 rider and the avoidable rider to ensure it is not over- or under-recovering costs.

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

I hereby certify that a copy the foregoing Direct Testimony of J. Edward Hess was served by electronic mail this 16th day of July, 2018 to the following:

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/s/ Rebekah J. Glover

Rebekah J. Glover

**Exhibit JEH 1**

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

From JEH 2	\$ 11,235,576
From JEH 3	\$ 163,876
	<u>\$ 11,399,452</u>

<b>Calculation of the Credit Rate to All Customers (By Sales)</b>				
<b>Allocation to Customer Class (By Number of Total Customers)</b>				
	<b>Residential</b>	<b>Comercial</b>	<b>Industrial and Other</b>	<b>Total</b>
Total Customers	458,392	50,763	1,714	510,869
% to the Total	89.728%	9.937%	0.336%	100.000%
	\$ 10,228,488	\$ 1,132,718	\$ 38,246	\$ 11,399,452
	<b>Residential</b>	<b>Comercial</b>	<b>Industrial and Other</b>	<b>Total</b>
Total KWH Sales	5,101,000,000	3,732,000,000	5,010,000,000	13,843,000,000
	\$ (0.0020052)	\$ (0.0003035)	\$ (0.0000076)	

<b>Calculation of the Avoidable Rider to Non-Shoppers (By Sales)</b>				
<b>Allocation to Customer Class (By Number of Non-Shopping Customers)</b>				
	<b>Residential</b>	<b>Comercial</b>	<b>Industrial and Other</b>	<b>Total</b>
Non-Shopping Customers	256,217	21,383	436	278,036
% to the Total	92.152%	7.691%	0.157%	100.000%
	\$ 10,504,875	\$ 876,701	\$ 17,876	\$ 11,399,452
	<b>Residential</b>	<b>Comercial</b>	<b>Industrial and Other</b>	<b>Total</b>
Non-Shopping MWH Sales	2,761,000,000	658,000,000	507,000,000	3,926,000,000
	\$ 0.003805	\$ 0.001332	\$ 0.000035	

The Dayton Power and Light Company  
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Acct. No.	Account Title	Unadjusted Distribution	Total Adjustments	Adjusted		Adjusted Expenses	SSO Allocated Expenses	Alloc. Method
1	OPERATING EXPENSES							
2								
3	CUSTOMER ACCOUNTS EXPENSES							
4	Operation							
5	901 Supervision	0	-	-		-		
6	902 Meter Reading Expenses	3,653,751	-	3,653,751		-		
7	903 Customer Records and Collection Expenses	10,957,095	-	10,957,095	100.0000%	10,957,095	3,861,640	CUST
8	904 Uncollectible Accounts	30,976,224	(30,953,613)	22,611		-		
9	905 Miscellaneous Customer Accounts Expenses	0	112,295	112,295	100.0000%	112,295	39,576	CUST
10	TOTAL Customer Accounts Expenses	45,587,070	(30,841,318)	14,745,752		11,069,390	3,901,216	
11								
12	CUSTOMER SERVICE AND INFORMATIONAL EXPENSES							
13	Operation							
14	907 Supervision	2,465,547	(2,524,158)	(58,611)		-		
15	908 Customer Assistance Expenses	6,202,665	(6,197,913)	4,752	100.0000%	4,752	1,675	CUST
16	909 Informational and Instructional Expenses	2,270,531	(2,219,303)	51,228	100.0000%	51,228	17,283	REV
17	910 Misc. Customer Service and Informational Expenses	12,655,033	(12,646,579)	8,454	100.0000%	8,454	2,852	REV
18	TOTAL Customer Service and Informational Expenses	23,593,776	(23,587,953)	5,823		64,434	21,810	
19								
20	911-916 SALES EXPENSES	0	-	-				
21								
22	ADMINISTRATIVE AND GENERAL EXPENSES							
23	Operation							
24	920 Administrative and General Salaries	4,500,812	(6,945,943)	(2,445,131)	100.0000%	(2,445,131)	(824,912)	REV
25	921 Office Supplies and Expenses	9,424,735	(45,292)	9,379,443	100.0000%	9,379,443	3,164,337	REV
26	922 Administrative Expenses Transferred - Cr.	(1,042,533)	1,485	(1,041,048)	100.0000%	(1,041,048)	(351,218)	REV
27	923 Outside Services Employed	5,127,227	(84,443)	5,042,784	100.0000%	5,042,784	1,701,281	REV
28	924 Property Insurance	1,272,230	(729,426)	542,804	Plant ratio	-	1,352.06	Net Plant
29	925 Injuries and Damages	802,012	(1,142)	800,870	31.9430%	255,822	86,307	REV
1	926 Employee Pensions and Benefits	17,857,381	(3,849,597)	14,007,784	31.9430%	4,474,509	1,509,562	REV
2	927 Franchise Requirements	0	-	-		-	-	REV
3	928 Regulatory Commission Expenses	4,016,665	(1,617,957)	2,398,708	100.0000%	2,398,708	809,251	REV
4	929 Duplicate Charges-Cr.	(619,576)	474,610	(144,966)	100.0000%	(144,966)	(48,907)	REV
5	930.1 General Advertising Expenses	760,752	(760,752)	-		-	-	REV
6	930.2 Miscellaneous General Expenses	1,902,958	(7,942)	1,895,016	100.0000%	1,895,016	639,320	REV
7	931 Rents	18,771	(27)	18,744	100.0000%	18,744	6,324	REV
8	TOTAL Operation	44,021,434	(13,566,426)	30,455,008		19,833,881	6,692,695	
9	Maintenance							
10	935 Maintenance of General Plant	1,352,265	(1,074,474)	277,791		-	-	
11	TOTAL Administrative and General Expenses	45,373,699	(14,640,900)	30,732,799		19,833,881	6,692,695	
12								
15	DEPRECIATION AND AMORTIZATION EXPENSES							
16								
17	DEPRECIATION EXPENSE							
18	403 Production	0	-	-				
19	403 Transmission	0	-	-				
20	403 Distribution	50,308,318	(7,151,888)	43,156,430				
21	403 General	1,011,832	(749,198)	262,634	Direct	574,595	202,506	CUST
22	TOTAL Depreciation Expense	51,320,150	(7,901,086)	43,419,064		574,595	202,506	
23								
24	AMORTIZATION OF UTILITY PLANT							
25	403 Intangible Plant	4,287,557	(271,358)	4,016,199		-	-	
26								
27	411 Accretion Expense	0	-	-		-	-	
28								
29	TOTAL Depreciation and Amortization Expenses	55,607,707	(8,172,444)	47,435,263		574,595	202,506	
1	TAXES OTHER THAN INCOME TAXES							
2	408 Commercial Activity Taxes	565,242	206,313	771,555		-	-	
3	408 State Excise Taxes	49,707,317	(49,776,248)	(68,931)		-	-	
4	408 Payroll Taxes	2,600,015	22,046	2,622,061	31.9430%	837,565	295,186	CUST
5	408 Property Taxes	51,827,392	(3,144,396)	48,682,996	Plant Ratio	-	121,264	Net Plant
6	408 Federal Use Tax	3,268	-	3,268		-	-	
7	408 Insurance Premium Taxes	5,572	-	5,572		-	-	
8	408 Ohio User Fees	0	-	-		-	-	
9	TOTAL Taxes Other Than Income Taxes	104,708,806	(52,692,285)	52,016,521		837,565	416,449	
10								
					Total	32,379,865	11,234,677	

Customer Allocator 35.2433%  
Revenue Allocator 33.7369%  
Allocated Expenses before Labor Associated Expenses 26,237,374

The Dayton Power and Light Company  
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Line No.	Acct. No.	Account Title	Adjusted Jurisdictional Plant	Adjusted Jurisdictional Reserve	Net Plant	Adjusted Rate Base	SSO Allocated Rate Base	Depreciation Expense	Adjusted Depreciation
							35.24328%		
1	3892	Land & Rights - Comm - OTHER	1,608,881	-	1,608,881	-			
2	3902	S&I - Common - OTHER	17,255,105	11,406,031	5,849,074	100%	5,849,074	2,061,406	574,595
3	3915	Office Furn & Equip - EAST BEND	-	-	-	-	-	-	-
4	3915	Office Furn & Equip - MIAMI FORT	-	-	-	-	-	-	-
5	3915	Office Furn & Equip - ZIMMER	-	-	-	-	-	-	-
6	3925	Transportation Equip - ZIMMER	-	-	-	-	-	-	-
7	3930	Stores Equip - Commo - OTHER	345,031	274,765	70,266	-	-	-	13,284
8	3935	Stores Equip - COF - EAST BEND	-	-	-	-	-	-	-
9	3935	Stores Equip - COF - MIAMI FORT	-	-	-	-	-	-	-
10	3940	Tools, Shop & Garage - OTHER	7,391,677	4,222,684	3,168,993	-	-	-	269,796
11	3950	Lab Equip - Common - OTHER	4,094,553	515,722	3,578,831	-	-	-	163,782
12	3960	Power Operated Equip - OTHER	2,148,702	2,148,702	(0)	-	-	-	-
13	3960	Power Operated Equip - PWR OPER EQUIP	-	-	-	-	-	-	-
14	3975	Communication Equip - EAST BEND	-	-	-	-	-	-	-
15	3975	Communication Equip - ZIMMER	-	-	-	-	-	-	-
16	3980	Misc Equipment - Com - OTHER	-	(247,124)	247,124	-	-	-	-
17	Composite	Reconciling Difference - Prorated by Year	(23,203,997)	(23,270,958)	66,961	-	-	-	(758,823)
18	106	Completed Construction	-	-	-	-	-	-	-
19	108	RWIP - Cost of Removal	-	-	-	-	-	-	-
20	108	RWIP - Salvage	-	-	-	-	-	-	-
21									
22		Total General Plant	<u>9,639,952</u>	<u>(4,950,178)</u>	14,590,130		2,061,406	574,595	<u>262,634</u>
1		Working Capital Allowance			3,557,898	0.249089%	8,862		
2									
3		Customers' Advances for Construction			(466,036)	0.249089%	(1,161)		
4									
5		Other Rate Base Items			<u>(187,841,780)</u>	0.249089%	<u>(467,893)</u>		
							1,601,214		
					Staff's midpoint Rate of Return (net of tax)		6.60%		
					Staff's GRCF		1.5497320		
					Revenue Requirement Impact		<u>163,876</u>		

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

**Revenue Allocation Factor for the period ended 12/31/2015**

	Distribution	Generation	Total Billed
Non-Shopping	\$ 194,983,391	\$ 280,458,250	\$ 475,441,642
Shopping	\$ 355,867,587		\$ 355,867,587
	<u>\$ 550,850,979</u>	<u>\$ 280,458,250</u>	<u>\$ 831,309,229</u>

Revenue Allocation Factor 33.73693%

**Weighted Customer Allocation Factor as of 3/31/2016**

	Distribution	Generation	Total
Non-Shopping	278,036	278,036	556,072
Shopping	232,833		232,833
	<u>510,869</u>	<u>278,036</u>	<u>788,905</u>

Weighted Customer Allocation Factor 35.24328%

**Labor Associated Expense Allocation**

Adjusted O&M Expenses before Labor Associated Expenses	26,237,374
Staff's Adjusted Total Operation and Maintenance Expenses (Staff's Schedule C-2, Column 3, line 15)	82,138,062

31.943015%

**Plant Associated Expense Allocation**

SSO Plant Allocated to Rate Base	2,061,406
Staff's Adjusted Net Plant (Staff's Schedule B-1, Column 2, line 13)	827,578,284

0.249089%