14

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Edison	:	
Company, The Cleveland Electric Illuminating	:	Case No. 07-551-EL-AIR
Company and The Toledo Edison Company for	:	Case No. 07-552-EL-ATA
Authority to Increase Rates for Distribution	:	Case No. 07-553-EL-AAM
Service, Modify Certain Accounting Practices and	:	Case No. 07-554-EL-UNC
for Tariff Approvals.	:	

PREFILED TESTIMONY
OF

CARLOS J. GARCIA

ACCOUNTING & ELECTRICITY DIVISION
UTILITIES DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO

RECEIVED-DOCKETING DIV
2008 JAN 30 PM 2:37
PUCO

STAFF EXHIBIT _____

January 30, 2008

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 TM

1 1. Q. Please state your name and business address.

2 A. My name is Carlos J. Garcia. My business address is 180 East Broad

3 Street, Columbus, Ohio. 43215-3793

4

5 2. Q. By who are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio.

7

8 3. Q. What is your present position with the Public Utilities Commission of Ohio

9 and what are your job duties?

10 A. I am a Utility Specialist 3 in the Accounting and Electricity Division of the

11 Utilities Department. My duties include performing detailed investigations

12 of rate case applications, preparing and reviewing lead/lag studies, assisting

13 and supervising team members, preparing schedules and text for the Staff

14 Report of Investigation, and preparing and presenting testimony supporting

15 the Staff's position.

16

17 4. Q. Would you briefly state your educational background and work experience?

18 A. I graduated from the University of Guadalajara with a Bachelor of Science

19 Degree in Business Administration with a major in accounting. After

20 graduation I worked for the certified public accounting firm of C.G.

21 Ramirez in Guadalajara, Mexico. In 1976 I immigrated to the United States

22 of America. I was employed by la Raza Unida of Ohio from 1977 to 1978

as a Junior Accountant. In 1979 I was employed by Isabelle Ridgway Nursing Home as Office Manager. In July of 1980 I was employed by the Commission as a Staff Accountant and was assigned to my present position in January of 2005.

5. Q. What is the purpose of your testimony in this proceeding?

A. I will respond to the Applicant's Objection numbers 1, 2, 3, 4, and 5 and The Ohio Energy Group Objection number 4.

6. Q. By its Objection number 1, the Applicant objects to the Staff's computation of the working capital allowance by including in that computation the effects of what the Applicant claims are various incorrectly calculated Staff C-3 adjustments. Additionally, the Applicant believes the Staff made mathematical errors in its calculation of the Weighted Dollar Days component of the cash working capital requirements shown in Column G of Staff's Schedule B-5.1. Specifically, the Applicant claims the Staff incorrectly multiplied the Adjusted Jurisdictional Amount by the Lead/Lag Days for Electric Revenues, Other Revenues, and Employee Benefits. The Applicant claims these errors resulted in an incorrectly calculated working capital requirement. Will you comment?

A. Yes. The first part of the Applicant's Objection, if determined by the Commission to be correct, would have a flow-through effect. In the second part

of the Applicant's Objection, the Staff agrees with the Applicant that there were mathematical errors made in the Staff's calculation of the Weighted Dollar Days component on the Staff's Schedule B-5.1 that resulted in an incorrectly calculated cash working capital requirement for Electric Revenues, Other Revenues and Employee Benefits. The Staff will correct these mathematical errors in Staff's Schedule B-5.1.

7. Q. Will you respond to the Applicant's Objection number 2 regarding the Applicant's claim that Staff made certain modifications to the calculation of Electric Revenues and Other Revenues but did not adjust the lead/lag days shown in Staff's Schedule B-5.1 to reflect those modifications?

A. Yes. After further review of the Applicant's Objection, the Staff agrees with the Applicant that the lead/lag days assigned to Electric Revenues and Other Revenues should be adjusted. The Staff recommends that its calculation of the revenue lead/lag days for Electric Revenues be adjusted to reflect the exclusion of generation revenue associated with Energy for Education. The Staff also recommends that its calculation for the revenue lead/lag days for Other Revenues be adjusted to reflect the exclusion of ATSI ground lease revenues. These revenues should not be part of the lead/lag study in that they have been excluded by Staff in its determination of adjusted test year revenues. The will reflect the changes in Schedule B-5.1.

8. Q. The Applicant in Objection 3 claims the Staff failed to use the service period midpoint in its calculation of the lag days associated with accrued vacation. The Applicant also states the Staff failed to include its adjustment for test year labor expense in its calculation of the lag days assigned accrued vacation. Will you respond?

A. Yes. With regard to the first part of Applicant's objection regarding the Staff's calculation of accrued vacation lag days, I do not agree. The Staff believes that the lag between the point in time at which an employee earns vacation and when the company actually pays for that vacation should be recognized in the weighted average lag in the payment of wages. The Applicant assumes that the appropriate lag is from the midpoint of the service year to the first day of the following year, or 182.5 days. The Applicant's 182.5 days incorrectly assumes that each company's employee takes his or her vacation on the first day that he/she is entitled to it. This scenario obviously does not occur. Consequently, the Applicant's figure improperly measures the lag of vacation pay.

In calculating the accrued vacation lag days, the Staff used a methodology which more accurately measures the amount of vacation pay recognized by the company on an accrual basis during the test year. Staff's methodology which has been approved by the Commission in prior cases, measures the number of days between the time an employee earns vacation and the time

the company actually pays the employee for that vacation. The above mentioned methodology simply calculates the accrued vacation lag days, applied to test year accrued vacation pay as follows: average accrued vacation liability balances as of December, 2005 and December of 2006, divided by December 31, 2006 average daily accrued vacation amount recognized on an accrual basis.

The Applicant claims the Staff erred in not including the Staff's adjustment to test year labor expense in its calculation of the expense lag days Staff assigned to Payroll shown on Schedule B-5.1. The Staff disagrees with the Applicant's claim. Traditionally, utilities have provided the Staff with lead/lag studies that have included known historical data from which the Staff was able to calculate revenues and expenses lead/lag days. Since those studies typically contained information that was known and actual, there was no need on Staff's part to make adjustments to the data in arriving at the cash working capital requirements of the utility. As such, the Staff does not believe it is appropriate to make any adjustments to the data contained to the Applicant's lead/lag study utilized by the Staff in determining the companies' cash working capital requirements in this proceeding. The Staff believes its position with regard to this objection is consistent with its treatment of this issue in prior cases.

9. Q. In its objection 4, the Applicant objects to the Staff's inclusion of an expense lag associated with interest payments on long-term debt. Would you respond to this objection?

A. Yes. The Applicant contends the Staff erred in assigning an expense lag in its lead/lag study for long-term debt interest payments. The Applicant argues that it is inappropriate to treat long-term debt interest as an operating expense. As such, the Applicant believes the staff erred in assigning an expense lag to those costs. The Staff disagrees with the Applicant's contention, and believes it has appropriately assigned an expense lag to the payment of interest on long-term debt consistent with past Commission decisions.

The Staff believes and the Commission has concurred that the interest payments made to bondholders of the Applicant's long-term debt represent an operating expense incurred by the Applicant that should have an expense lag assigned to it. (*See In re CEI*, Case Nos. 84-188-EL-AIR and 84-414-EL-AAM (Opinion & Order at 15) (March 7, 1985). The Applicant collects revenues from its utility customers on a continuous basis during the course of the month. A portion of a monthly revenue collection represents a long-term debt return on rate base. However, the Applicant pays its long-term debt interest in arrears on a semiannual basis with an average of 91.2 lag days. Therefore, it is evident that the Applicant collects revenues well

in advance of its required cash long-term debt interest payments. There is a payment associated with interest which is why the Staff applied lag days of 91.2 days. As such, for all intents and purposes, the utility customers have invested capital in the company for which they should be compensated.

10. Q. Would you respond to Objection 5 that states the Staff erred in using adjusted jurisdictional revenues and expenses as opposed to using Staff's *proforma* revenues and expenses in its lead/lag study used to develop a working capital allowance?

A. Yes. The Applicant argues that the Staff should have used a *proforma* income statement at the approved revenue requirement level in its lead/lag study to develop a proper working capital allowance. The Staff disagrees with the Applicant's argument. The Staff is of the opinion that the purpose and the method of calculating a working capital allowance should be aimed at creating a proper rate base component which should reasonably represent the shareholders investment in working capital in addition to their investment in plant. Since the plant is determined as of a date certain, working capital should similarly be measured at and reflective of the same date certain. Thus, the use of *proforma* revenues and expenses to compute cash working capital would be improper. Since working capital is a component of rate base it is therefore, appropriate that the date certain level of investment be assigned to the individual components of the working capital

allowance calculation. The Staff believes and the Commission has agreed that the use of *proforma* revenues and expenses to compute cash working capital would be improper since *proforma* figures are not consistent with the date certain concept. (See Ohio Edison Company, Case No. 84-1359-EL-AIR (Opinion and Order October 29, 1985), at 14). The Staff realizes the Commission has wide discretion in determining a reasonable allowance for cash working capital, but continues to believe that the adoption by the Commission of the use of *proforma* revenues and expenses would not be appropriate and would affront the date certain concept.

Rate base should not be value on speculation. *Proforma* taxes are computed base upon *proforma* revenue levels. It follows, therefore, that if *proforma* taxes should not be used in the calculation of working capital, then *proforma* revenues should also not be used in the calculation of working capital. Hence, use of *proforma* revenues and expenses to compute cash working capital is improper.

This issue has been addressed by the Commission in numerous cases since 1983. (*See In re Ohio Edison Co.*, Case No. 84-359-EL-AIR (Opinion and Order at 14) (October 29, 1985); *In re CEI*, Case No. 86-2025- EL-AIR (Opinion and Order at 25) (December 16, 1987); *In re Toledo Edison Co.*, Case No. 86-2026-EL-AIR (Opinion and Order at 17) (December 16,

1987); *In re Columbia Gas of Ohio, Inc.*, Case No. 89-616-GA-AIR (Opinion and Order at 15) (April 05, 1990). In all of these cases, the Commission has rejected the use of *proforma* revenues and expenses to calculate working capital.

11. Q. Would you comment on Objection 8 from The Ohio Energy Group regarding their contention that both the Staff and the companies improperly set the computed negative cash working capital to $0 despite the fact that both the computed CWC and the broader quantification of working capital were negative?

A. Yes. Working capital is the average amount of capital provided by investors in the company over and above the investments in plant and other specifically rate base items. The Staff recommends against reducing rate base, otherwise justified, by authorization of a negative working capital. If investors are not required to provide additional capital, working capital should be set at zero and not used to reduce rate base.

The fact that the company may have a negative calculated working capital may be the result of good management. An electric company traditionally has relatively large balances in materials and supplies and other working capital components aside from cash working capital enough to offset a negative cash working capital. A company which has achieved good cash

management by collecting revenues in a timely manner and by posting payments beyond the time service is rendered should not be penalized by having its rate base reduced.

It appears that the Commission believes the Supreme Court has addressed this matter, but I am not a lawyer and can offer no opinion. (*See Cincinnati Bell Telephone Co.*, Case No. 84-1272-TP-AIR) (Opinion and Order at 9) (October 29, 1985) ; *In re Toledo Edison Co.*, Case No. 86-2026-EL-AIR (Opinion and Order at 17) (December 16, 1987).

12. Q. Does this conclude your direct testimony?

A. Yes it does.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Carlos J. Garcia, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 30th day of January, 2008.

Thomas W. McNamee
Assistant Attorney General

Parties of Record:

Kathy Kolich
James Burk
Stephen Feld
Arthur Korkosz
Ebony Miller
Mark Hayden
FirstEnergy Corp.
76 South Main Street
Akron, OH 44308
kjkolich@firstenergycorp.com
burkj@firstenergycorp.com
felds@firstenergycorp.com
korkosza@firstenergycorp.com
emiller@firstenergycorp.com
haydenm@firstenergycorp.com

Mark A Whitt
Jones Day
P.O. Box 165017
325 John H. McConnell Blvd.
Suite 600
Columbus, OH 43216-5017
mawhitt@jonesday.com

Jeffrey Small
Richard Reese
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43215-3485
small@occ.state.oh.us
reese@occ.state.oh.us

M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour & Pease
52 East Gay Street
Columbus, Oh 43215
mhpetricoff@vorys.com
smhoward@vorys.com

Joseph Meissner
Director of Urban Development
1223 West Sixth Street
Cleveland, Oh 44113
jpmeissn@lawsclev.org

Lisa McAlister
Samuel C. Randazzo
Dan Neilsen
Joe Clark
Thomas Froehle
McNees, Wallace & Nurik
21 East State Street, 17th Floor
Columbus, Oh 43215-4228
lmcalister@mwncmh.com
sam@mwncmh.com
dneilsen@mwncmh.com
jclark@mwncmh.com
tfroehle@mwncmh.com

Sally Bloomfield
Thomas O'Brien
Bricker & Eckler
100 South Third Street
Columbus, OH 43215-4291
sbloomfield@bricker.com
tobrien@bricker.com

Garrett A. Stone
Michael K. Lavanga
Brickfield, Burchette, Ritts & Stone
1025 Thomas Jefferson Street N.W.
8th Floor, West Tower
Washington, D.C. 20007
gas@bbrslaw.com
mkl@bbrslaw.com

Leslie A Kovacik
Kerry Bruce
City of Toledo
420 Madison Avenue
Suite 100
Toledo, Oh 43614-1219
leslie.kovacik@toledo.oh.gov
kerry.bruce@toledo.oh.gov

Bobby Singh
Integrys Energy Services, Inc.
300 West Wilson Bridge Road
Suite 350
Worthington, OH 43085
bsingh@integrysenergy.com

David Boehm
Michael Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OH 45202-4454
dboehm@bkllawfirm.com
mkurtz@bkllawfirm.com

Mark S. Yurick
John Bentine
Chester Willcox & Saxbe
65 East State Street
Suite 1000
Columbus, OH 43215-4213
myurick@cwslaw.com
jbentine@cwslaw.com

Lance Keiffer
Assistant Prosecuting Attorney
711 Adams Street, 2nd Floor
Toledo, OH 43624-1680
lkeiffer@co.lucas.oh.us

Glenn Krassen
Bricker & Eckler
1375 East Ninth Street
Suite 1500
Cleveland, OH 44114-1718
gkrassen@bricker.com

Cynthia A. Fonner
David I. Fein
Constellation Energy Group, Inc.
550 West Washington Street
Suite 300
Chicago, IL 60661
cynthia.a.fonner@constellation.com
david.fein@constellation.com

David Rinebolt
Colleen L. Mooney
231 West Lima Street
P.O. Box 1793
Findlay, OH 45939-1793
drinebolt@aol.com
cmooney2@columbus.rr.com

Paul S. Goldberg
City of Oregon Law Director
6800 West Central Avenue
Toledo, OH 43617-1135
pgoldberg@ci.oregon.oh.us

Peter D. Gwyn
City of Perrysburg Law Director
110 West Second Street
Perrysburg, OH 43551
pgwyn@ci.perrysburg.oh.us

James E. Moan
City of Sylvania Law Director
4930 Holland-Sylvania Road
Sylvania, OH 43560
jimmoan@hotmail.com

Paul Skaff
Assistant Village Solicitor
Leatherman, Witzler, Dombrey & Hart
353 Elm Street
Perrysburg, OH 43551
paulskaff@justice.com

Robert Triozzi
Director of Law
City of Cleveland
601 Lakeside Avenue
Room 196
Cleveland, OH 44114
rtriozzi@city.cleveland.oh.us

Terry S. Harvill
Constellation NewEnergy, Inc.
111 Market Place
Baltimore, MD 21202
terry.harvill@constellation.com

Sheilah H. McAdams
City of Maumee Law Director
Marsh & McAdams
204 West Wayne Street
Maumee, OH 43537
sheilahmca@aol.com

Thomas R. Hays, Solicitor
3315 Centennial Road
Suite A-2
Sylvania, OH 43560
hayslaw@buckeye-express.com

Brian J. Ballenger
City of Northwood Law Director
3401 Woodville Road
Suite C
Toledo, OH 43619
ballengerlawbjb@sbcglobal.net