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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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In the Matter of the Application of Ohio Edison	:	PUCO
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
IBRAHIM SOLIMAN
ACCOUNTING & ELECTRICITY DIVISION
UTILITIES DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO**

STAFF EXHIBIT _____

January 30, 2008

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

A. My name is Ibrahim Soliman. My business address is 180 E. Broad Street,
Columbus, Ohio 43215.

2. Q. By who are you employed?

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

3. Q. What is your current position with the Public Utilities Commission of Ohio
and what are your job duties?

A. I am a Public Utilities Administrator II in the Accounting and Electricity
Division of the Utilities Department. My duties include the planning of
rate case investigations, supervising auditors assigned to the investigation
of rate cases and overseeing the preparation and presentation of both text
and schedules for the Operating Income and Rate Base sections of the
Staff's Report of Investigation. I am also responsible for preparing and
presenting written and oral testimony in support of Staff's position pre-
sented in staff reports.

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

A. I graduated from Cairo University in 1976 with a Bachelor of Science
Degree in Business Administration with a major in Accounting. In June of
1978, I immigrated to the United States of America. I was employed by

1 Lewis and Michael Storage Inc. from February of 1979 to July of 1980 as a
2 junior accountant. In July of 1980, I began my employment with the
3 Commission as a Utility Examiner I and was assigned to my current posi-
4 tion in December of 2002. I am a Certified Public Accountant, a Certified
5 Internal Auditor, and a Certified Management Accountant.
6

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

8 A. The purpose of my testimony in this proceeding is to respond to objections
9 regarding the Staff's calculation of federal income taxes shown on Sched-
10 ule C-4 of the Staff's Report of Investigation. I am also responsible for
11 addressing objections related to the Staff's determination of deferred
12 income taxes listed on Schedule B-6 of the Staff Report.
13

14 6. Q. Specifically, what objections are you responding to?

15 A. I will address the Applicant's Objection numbers 10, 17, 18, 19, 20, 21, and
16 25; Office of Consumers' Counsel's Objection number 2; Industrial Energy
17 Users-Ohio's Objection number 2, 4, 30, and 32; Ohio Energy Group's
18 Objection numbers 2, 3, and 5; and Ohio Partners for Affordable Energy's
19 Objection number 1.
20

1 7. Q. Does your testimony in this proceeding apply to all three operating com-
2 panies, Ohio Edison Company (OE), Cleveland Electric Illuminating Com-
3 pany (CEI), and Toledo Edison Company (TE)?

4 A. Yes, it does.

5 **Gross Revenue Conversion Factor**

6 8. Q. The Applicant objects to the Staff's failure to include a separate component
7 in its calculation of the gross revenue conversion factor to take into account
8 the Public Utility Maintenance assessment and the Office of Consumers'
9 Counsel Fund assessment. What is your response to this objection?

10 A. This same argument has been previously heard and disallowed by the Com-
11 mission. The future budget of the Public Utility Maintenance assessment or
12 the Consumers' Counsel Fund assessment is determined base on the future
13 financial needs. Also, a utility's share of the Public Utility Maintenance
14 assessment or the Consumers' Counsel Fund assessment is determined by a
15 comparison of its gross intrastate earnings with those of other regulated
16 electric utility companies. There is simply no accurate or meaningful way
17 of calculating or anticipating what the Applicant's share of those assess-
18 ments will be in future years. Therefore, the calculation of the gross rev-
19 enue conversion factor, as stated in the Staff Report, is correct and should
20 be used. (See Columbia Gas Company, Case No. 76-704-GA-CMR,
21 (Opinion & Order), and Dayton Power and Light Company, Case No. 78-
22 92-EL-AIR, (Opinion & Order).

9. Q. The Ohio Partners for Affordable Energy object to the Staff's calculation of the gross revenue conversion factor because it fails to utilize the effective federal income tax rate. What is your response to this objection?

A. Contrary to the intervenor's objection, the Staff did use the effective federal income tax rate in its calculation of the gross revenue conversion factor.

While it may appear from a cursory review of Schedule A-1.1 that the Staff used the standard 35% federal tax rate in its calculation of the conversion factor a closer observation reveals this is not the case. The Staff applied the 35% rate to adjusted income only after the exclusion of state and municipal taxes from operating revenue. This mathematical calculation automatically takes into consideration the effective federal income tax rate that is somewhat less than the standard 35% as shown in the Staff's example listed below.

	<u>Staff</u>	<u>Intervenor</u>
Operating Revenue	100%	100%
Less: Uncollectible	<u>0.5</u>	<u>0.5</u>
Income before taxes	99.5	99.5
State & Municipal	<u>2.5</u>	<u>2.5</u>
Income before FIT	97.0	97.0
Federal Income Tax (97.0% x 35%)	33.95	
(97.0% x 34.13%) ¹		<u>33.11</u>
Operating Income %	<u>63.05</u>	<u>63.89</u>
Revenue Conversion	1.586	1.565

¹ Effective federal income tax rate: $100\% - 2.5\% = 97.5\% \times 35\% = 34.13\%$.

1 Using the intervenor's suggested effective federal income tax rate in the
2 calculation of the gross revenue conversion factor would be inappropriate
3 because the calculation would result in a double deduction of state and
4 municipal taxes as demonstrated in the above example.

5
6 The Staff's calculation of the gross revenue conversion factor is correct.
7 The Staff therefore recommends that the calculation of the conversion
8 factor as presented on Schedule A-1.1 of the Staff Report of Investigation
9 be used in this proceeding.

10 **Statement of Financial Accounting Standards (SFAS) 109**

11 10. Q. The Applicant recommends the final SFAS 109 incremental income tax
12 liability resulting from the Applicant's most current tax study is utilized
13 instead of the estimated amortization on Schedule C-3.13 of the Staff
14 Report. Do you agree with the Applicant?

15 A. Yes. During the preparation of the Staff Report, the results of the study
16 were not finalized and estimated amortizations were presented in the Staff
17 Report. The Applicant's witness, Mr. Young provided the final amortiza-
18 tion amounts in his supplemental testimony. The Staff verified the final
19 results of the study and recommends the results be used in the determina-
20 tion of the incremental amortization of SFAS 109 on Schedule C-3.13. The
21 jurisdictional amortization amounts are \$1,296,503 (\$1,346,961 x

96.25395%) for OE, \$746,630 ($\$837,339 \times 89.16698\%$) for CEI, and
\$31,038 ($36,802 \times 84.33725\%$) for TE.

11. Q. The Applicant objects to the Staff's removal of the test year current
amortizations of SFAS 109 and SFAS 106 on Schedule C-3.5. What is
your response?

A. The Staff agrees that the test year current amortization of SFAS 109 should
be added back to the test year operating expenses. The jurisdictional amor-
tization amounts are \$8,673,273 ($\$9,010,823 \times 96.25395\%$) for OE,
\$607,390 ($\$681,183 \times 89.16698\%$) for CEI, and \$(1,506,895) [$\$(1,786,749$
 $\times 84.33725\%)$] for TE.

Staff Witness Mr. Castle will testify to the Staff's treatment of SFAS 106.

Deferred Municipal Distribution Tax

12. Q. The Applicant objects to the Staff's amortization of the deferred Municipal
Distribution Tax on Schedule C-3.5. What is your response?

A. The Applicant explains that each Company must annually submit a Munici-
pal Distribution tax rider based on its estimated tax liability and estimated
distribution revenues for recovery of the estimated tax liability for the year
of application. To the extent the collections do not match the actual
municipal tax obligations for the year; the difference becomes part of a
reconciliation component. This reconciliation component is tracked each

1 year and recognized as either a regulatory asset or a regulatory liability.

2 The regulatory asset or liability is considered when calculating the follow-
3 ing year's rider. Therefore, any amortization of the regulatory asset or
4 liability is inappropriate as it would duplicate the impact of the reconcilia-
5 tion.

6
7 The Staff agrees with the Applicant and recommends the removal of the
8 Municipal Distribution Tax amortization on Schedule C-3.5.

9
10 **Federal Income Taxes**

11 13. Q. The Applicant objects to the Staff's failure to modify the effective federal
12 income tax rates on Schedule C-4 to correspond to the changes Staff made
13 in the calculation of the effective state and municipal income tax rates.

14 What is your response to this objection?

15 A. The Staff agrees with the Applicant and recommends that the effective fed-
16 eral income tax rates be modified to correspond to the changes made by
17 Staff to the effective state and municipal income tax rates. As such, the
18 Staff recommends that the modified federal income tax rates provided by
19 the Applicant's Witness Mr. Young in his supplemental testimony be used
20 in the calculation of deferred federal income taxes on Schedule C-4.

14. Q. The Applicant objects to the Staff's normalization of book-to-tax timing difference associated with rate case expense on Schedule C-4. What is your response to this objection?

A. The Applicant claims that a mathematical error occurred in determining the proper reconciling item and deferred taxes associated with rate case expense.

The Applicant proposes that only one-third of the rate case expense be recognized in the determination of federal and state taxable incomes. The Applicant's proposal does not take into consideration the fact that the entire rate case expense is immediately deductible for federal and state tax purposes.

The Staff's amortization of rate case expense over three years has created a book-to-tax timing difference. Therefore, the Staff has reconciled the book income to taxable income to exclude the remaining two-thirds of rate case expense. The Staff then normalized the book-to-tax timing difference by deferring the tax associated with the entire rate case expense.

The normalization of the temporary book-to-tax timing differences has been adopted by the Commission in the past, and the Staff recommends the con-

1 continuation of the tax normalization for all the temporary book-to-tax timing
2 differences including rate case expense in this proceeding.

3
4 15. Q. The Applicant objects to the Staff's calculation of the reconciling item and
5 the deferred income taxes associated with amortization of the Statement of
6 Financial Accounting Standards (SFAS) 109 on Schedule C-4. What is
7 your response to this objection?

8 A. The Applicant claims that the Staff made a mathematical error in its
9 determination of the reconciling item and the deferred taxes associated with
10 the amortization of the SFAS 109. The Applicant states that the amortiza-
11 tion of the SFAS 109, as revised on Schedule C-3.13, is only an incre-
12 mental amount and should be added to the current test year amortization
13 amount of SFAS 109.

14
15 The Staff agrees with the Applicant and recommends that the total test year
16 amortization of SFAS 109, as revised on Schedules C-3.5 and C-3.13, be
17 used in the determination of federal and state income taxes on Schedule C-
18 4. The total jurisdictional amortization amounts are \$9,969,776 (\$8,673,273
19 + \$1,296,503) for OE, \$1,354,202 (\$607,390 + \$746,630) for CEI, and
20 \$(1,475,857) [\$(1,506,895) + \$31,038] for TE.

Ohio State Excess Deferred Income Tax

16. Q. The Ohio Energy Group claims that both the Applicant and Staff failed to reduce rate base by the amount of the Ohio State excess deferred income tax liability and also failed to reduce test year operating expense for an amortization of the excess tax over three years. What is your response?

A. The Applicant's date certain balances did not include an amount for Ohio State excess deferred income tax liability. The scope of the Staff's investigation of deferred income tax on Schedule B-6 was focused on the date certain balances. Therefore, the Staff did not investigate this issue and recommends that the Applicant provide rebuttal testimony to respond to this objection.

Energy for Education

17. Q. The Ohio Energy Group objects to the Applicant's and Staff's recognition of the public schools prepayment in the calculation of working capital revenue lag allowance on Schedule B-5 instead of a reduction to the rate base on Schedule B-6. What is your response?

A. The Applicant proposed to reflect the impact of the public schools prepayment in the calculation of the revenue lag allowance component of working capital. The result of including the prepayment reduced the revenue lag days from 40.2 days to 22.9 days for OE which represents a \$23,117,223 reduction to the working capital; from 39.5 days to 27.7 days for CEI which

1 represents a \$13,616,461 reduction to the working capital; and from 40.8
2 days to 29.6 days for TE which represents a reduction of \$4,509,973 to the
3 working capital as showing in the Staff Reports. The Staff verified these
4 calculations and found this treatment to be a reasonable method for the pre-
5 payment.

6
7 Removing of the prepayment from the working capital allowance on Sched-
8 ular B-5 to other rate base items on Schedule B-6 requires a revision to the
9 lead lag study which may be time consuming. The Staff believes that the
10 impact of such a removal is immaterial considering that only the distribu-
11 tion revenue portion of the prepayment will be considered.

12
13 **Deferred Income Taxes**

14 18. Q. The Office of Consumers' Counsel, Industrial Energy Users-Ohio, and Ohio
15 Energy Group object to the inclusion of several deferred income tax bal-
16 ances included in Accounts 190 and 283 in the determination of the rate
17 base. What is your response?

18 A. After reviewing the second supplemental testimony of Applicant's Witness
19 Mr. Young, the Staff agrees with the Office of Consumers' Counsel,
20 Industrial Energy Users-Ohio, and the Ohio Energy Group. The Staff rec-
21 ommends that Mr. Young proposed adjustments as presented in his second

1 supplemental testimony and corrected during the hearing be adopted in this
2 proceeding.

3

4 19. Q. Does this conclude your testimony?

5 A. Yes, it does.

6

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Ibrahim Soliman, 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.



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