

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	:	
Columbus Southern Power Company	:	Case Nos. 11-346-EL-SSO
and Ohio Power Company for Authority	:	11-348-EL-SSO
to Establish a Standard Service Offer	:	
Pursuant to Section 4928.143, Ohio	:	
Revised Code, in the Form of an Electric	:	
Security Plan.	:	
	:	Case Nos. 11-349-EL-AAM
In the Matter of the Application of	:	11-350-EL-AAM
Columbus Southern Power Company	:	
and Ohio Power Company for Approval	:	
of Certain Accounting Authority	:	

**PREFILED TESTIMONY
OF
DORIS E. MCCARTER
CAPITAL RECOVERY AND FINANCIAL ANALYSIS DIVISION
UTILITIES DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO**

PUCO

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STAFF EX. _____

May 9, 2012

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1 1. **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Doris McCarter. My business address is 180 East Broad
3 Street, Columbus, Ohio 43215.

5 2. **Q. BY WHOM ARE YOU EMPLOYED?**

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

8 3. **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND
9 PROFESSIONAL BACKGROUND.**

10 A. I received a Masters in Public Administration from Columbia University. I
11 have been employed by the PUCO since December, 1989 in various
12 capacities; Commissioner Aide to Commissioner Richard M. Fanelly,
13 Utility Specialist 2 in the Telecommunications Division of the Utilities
14 Department, and Deputy and Departmental Director of the Service
15 Monitoring and Enforcement Department.

17 4. **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES.**

18 A. I am Chief of the Capital Recovery and Financial Analysis Division within
19 the Utilities Department. My duties include establishing policies, practices,
20 and procedures for the Division's regulatory analysts who conduct audits
21 and investigations of public utility companies subject to the jurisdiction of
22 the PUCO. I have overall responsibility for certain aspects of the Staff's
23 revenue requirement determination during rate setting investigations. The
24 calculation of depreciation expense, accumulated depreciation reserve and
25 cost of capital are under my purview. I also have overall responsibility for
26 management and operations reviews, corporate separation compliance,
27 financing approvals, and the administration of the significantly excessive
28 earnings test for electric distribution companies.

1 **5. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to address the recovery mechanism
4 associated with AEP Ohio's proposed Distribution Investment Rider (DIR)
5 and AEP Ohio's corporation separation request should the Commission
6 approve them in this SSO.

7
8 **6. Q. WHY ARE YOU MAKING RECOMMENDATIONS TO A RIDER**
9 **ABOUT WHICH STAFF HAS EXPRESSED CONCERN?**

10 A. Firstly, I note that Staff witness Baker, while not unequivocally endorsing
11 the DIR, provides recommendations for the Commission to consider should
12 it believe that a DIR is appropriate.

13 Secondly, I also note that there was a \$62.344 million customer credit
14 created in AEP Ohio's most recent rate case, Case Nos. 11-351-EL-AIR
15 and 11-352-EL-AIR, to recognize the then approved DIR and eliminate
16 potential double counting. Should it not approve a DIR for AEP Ohio in
17 this case the Commission will need to (re)consider this credit.

18 **7. Q. SHOULD THE COMMISSION APPROVE A DIR FOR AEP OHIO,**
19 **ARE THERE MODIFICATIONS THE COMMISSION SHOULD**
20 **MAKE TO AEP OHIO'S PROPOSED DIR?**

21 A. First, I recommend that AEP Ohio's DIR calculation include an offset or
22 credit for accumulated deferred income taxes (ADIT).

23 Second, at pages 10 and 11 of AEP Ohio witness Kirkpatrick's testimony,
24 AEP Ohio makes reference to the inclusion of post-Phase I gridSMART
25 costs in the DIR. Specifically, AEP Ohio states, "Going forward, it is the
26 intent of AEP Ohio to expand elements of a gridSMART program
27 throughout the AEP Ohio service territory as part of normal business

1 through the DIR and in concert with Staff.” Staff has a concern with this
2 proposal. To the extent the Commission wishes to examine O&M savings
3 that occur due to gridSMART and use of those savings to create a credit
4 back to customers to recognize those savings, the current gridSMART rider
5 should be used to capture all gridSMART costs in order that there be a
6 mechanism via which that analysis can occur and so that those savings can
7 flow back to customers.

8 **8. Q. DOES STAFF HAVE RECOMMENDATIONS TO THE**
9 **ADMINISTRATIVE PROCESSING OF THE DIR APPLICATION,**
10 **SHOULD THE COMMISSION APPROVE ONE?**

11 A. Staff concurs with the suggestion that if a DIR were approved, the 3Q
12 FERC filings be used as the basis for determining incremental plant in
13 service. Staff wishes to further refine the future process by establishing that
14 the DIR filings should occur on or about June 30, September 30, December
15 30 and May 18, except for the final reconciliation filing which should occur
16 on May 31, 2015. If the May 31, 2015 review determines that AEP has
17 collected an amount above the cap, those amounts collected in excess of the
18 2015 cap should be returned as a one time credit on customer bills. This
19 schedule aligns with the timing of the 3Q (and Form 1) filings at the FERC.
20 The rate would be effective 60 days from the date that the filing was made
21 unless otherwise suspended by the Commission. This schedule permits the
22 ability to plan staff resources for reviewing the applications while affording
23 the company time to provide the supplemental and supporting information
24 that will accompany the DIR filing. AEP Ohio will bear the burden to
25 demonstrate the accuracy of the quarterly filings.

26 An annual review should occur with the May 18 filings. This annual audit
27 of the DIR could be conducted either by staff or an independent auditor.
28 There should also be one final annual audit following the AEP Ohio’s May

1 31, 2015 filing. If conducted by an independent auditor, the auditor would
2 be chosen by and work under the direction of the Commission. The expense
3 of the audit shall be paid by AEP Ohio and be fully recoverable through the
4 DIR in the next quarterly filing. The decision whether to conduct the audit
5 using staff members or an independent auditor would be at the sole
6 discretion of the Commission. With respect to the annual audit, Staff
7 recommends that a mechanism similar to that used in the annual review of
8 FE's DCR. Intervening parties should have 120 days from the filing of the
9 application to present evidence that an expenditure is unreasonable and it
10 should be AEP Ohio's burden to demonstrate that the expenditure was
11 reasonable by a preponderance of the evidence.

12 **9. Q. DO YOU HAVE ANY OTHER AREAS THAT YOU ARE**
13 **RESPONSIBLE FOR IN YOUR TESTIMONY?**

14 A. Yes. I am also commenting upon a couple of aspects of AEP Ohio's
15 corporate separation proposal as AEP Ohio has made reference to it in this
16 docket. For purposes of this discussion, AEP Ohio is synonymous with
17 Ohio Power Company as used in the Corporate Separation Application
18 (Case No. 12-1126-EL-UNC). Namely, I am addressing AEP Ohio
19 Witness Hawkins request (at page 10) that AEP Ohio not be required to
20 transfer \$296 million in pollution control bonds to the Genco. AEP has
21 made no showing that use of intercompany notes would have a substantial
22 negative impact on AEP Ohio's cost of debt. Should AEP desire not to
23 transfer this debt or use intercompany notes, it should make a filing to the
24 Commission, within six months of the completion of corporate separation,
25 demonstrating the substantial negative impact on AEP Ohio that would be
26 avoided. Therefore, Staff recommends that the Commission deny AEP
27 Ohio's request at this time.
28

1 **10. Q. ARE THERE ANY OTHER RECOMMENDATIONS WITH**
2 **RESPECT TO CORPORATE SEPARATION YOU WISH TO**
3 **MAKE?**

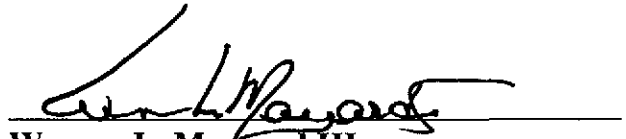
4 A. Yes. The Corporate Organization chart needs to be updated to reflect the
5 legal entities that are related to American Electric Power Inc., as well as all
6 reportable segments related to AEP-Ohio operating company. This should
7 be similar to the information American Electric Power Inc., provides in its
8 10 K filing to the Securities and Exchange Commission.

9 **11. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes.
11

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of **Doris E. McCarter** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the following parties of record, this 9th day of May, 2012.


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