

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an increase in its Electric Distribution Rates.	:	
	:	Case No. 12-1682-EL-AIR
	:	
	:	
In the Matter of the Application of Duke energy Ohio, Inc., for Tariff Approval.	:	
	:	Case No. 12-1683-EL-ATA
	:	
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.		Case No. 12-1684-EL-AAM

PREFILED TESTIMONY
OF
ROBERT P. FADLEY
UTILITIES DEPARTMENT
ACCOUNTING AND ELECTRICITY DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO
STAFF EX. ____

March 19, 2013

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

2
3 A. My name is Robert P. Fadley. My business address is 180 East Broad
4 Street, Columbus, Ohio, 43215.
5
6

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

8
9 A. I have been employed by the Public Utilities Commission of Ohio as a
10 Utility Specialist 1 in the Utilities Department Accounting and Electricity
11 Division since December of 2010.
12
13

14 **3. Q. Would you briefly state your professional and educational**
15 **background?**

16
17 A. Prior to accepting my position with the PUCO, I worked for AT&T
18 (formerly SBC and Ameritech) for 16 years, the last four years of which I
19 was a manager in operations. I graduated Magna Cum Laude in 2007 with
20 a Bachelor's degree in Accounting from Franklin University. I earned a
21 Master's degree in Accounting in 2012, also from Franklin.
22
23

24 **4. Q. Have you previously testified before the Commission?**

25
26 A. Yes, I have testified in one rate proceeding.
27

28 **5. Q. What is the purpose of your testimony?**

29
30 A. I will be addressing objections to the Staff Report from The Ohio Consumers'
31 Counsel (OCC) and the Ohio Partners for Affordable Energy (OPAЕ).
32 Specifically, I will be responding to OCC Objection 2 (Deferred Tax Debit
33 Allowance), Objection 4 (Unclaimed Funds), and Objections 15 and 16
34 (Uncollectible Expense and Gross Revenue Conversion Factor, respectively),
35 and OPAЕ Objection 3 (Effective Tax Rates).
36

1 **6. Q. What is the nature of the OCC's Objection 2?**

2
3 A. The OCC believes that the Staff "improperly adopted Duke's inclusion of" the
4 net *Tax Interest Accrual* on Schedule B-6 because "Staff did not deduct the
5 accrued interest to which the deferred taxes relate from rate base"¹. Therefore,
6 it is recommending an adjustment to rate base of \$1,324,000, which is the net
7 balance of the \$2,051,000 debit balance and the \$727,000 credit balance
8 (amounts rounded to the nearest \$1,000).

9
10 **7. Q. Do you agree with this objection?**

11 A. No. Staff believes that these adjustments have been properly accounted for
12 by the Company. The balance of \$2,051,000 recorded in Account 190 of
13 the Uniform System of Accounts (USOA) represents liabilities to the
14 Company due to timing differences between book and tax accounting.
15 These amounts have been offset by assets created due to these same timing
16 differences in the amount of \$727,000.

17 Whenever accumulated deferred income taxes (ADIT) are created, this
18 provides a company with a no cost source of funds that the company can
19 use. These dollars are deducted from rate base so that rate-payers are not
20 paying a return on non-investor-supplied funds. Deferred income tax
21 liabilities, on the other hand, are funds that must be provided by investors
22 to satisfy tax obligations. Therefore, it is reasonable to offset any
23 reductions in rate base due to ADIT with any liabilities that are generated
24 due to these same timing differences.

25
26 **8. Q. What is the nature of the OCC's Objection 4?**

27 A. In Objection 4, the OCC notes that the Staff did not offset rate base by the
28 unclaimed funds balance on Date Certain.

29
30

¹ Case No. 12-1682-EL-AIR, OCC *Objections to the PUCO Staff's Report...*, February 4, 2013, page 3

1 **9. Q. Do you agree with this objection?**

2
3 A. Yes. The OCC is correct that unclaimed funds are a source of non-
4 investor-supplied funds that rate-payers should not be required to pay a
5 return on. Therefore, the rate base should be reduced by the amount of the
6 unclaimed fund account balance at the Date Certain in this case. The
7 balance of the unclaimed funds account on the Date Certain was \$207,252.
8 However, in response to an OCC interrogatory, the Company states that it
9 “does not track [unclaimed funds] by gas and electric”². In his testimony,
10 James Gould of the OCC allocates unclaimed funds to the electric company
11 based upon the relative balances provided by the company in an account
12 titled *Special Customer Deposits*³. This approach allocates 67.0053% of
13 the Date Certain balance to the electric distribution company resulting in a
14 rate base reduction of \$138,870. The Staff believes this to be reasonable.

15
16
17 **10. Q. The OCC’s Objection 15 and Objection 16 are related. Can you**
18 **explain them?**

19 A. Both of these objections are based on Duke’s use of 0.5425% uncollectible
20 expense factor. The Company calculated its Uncollectible Account
21 Expense based upon its actual costs to sell its receivables to its parent
22 company. The amount that Duke Energy Ohio receives from the parent
23 company for its receivables is determined by a formula that was set by a
24 third-party valuation company⁴. This formula is based partially upon a
25 factor labeled *Time Value*. In its application, the Company calculated this
26 factor using an average of the twelve months ending with the Date Certain
27 to reach a value of 0.4925%. In Objection 15, the OCC suggests using a
28 *Time Value* factor based upon an average of the most recent eight months
29 available (January – August 2012) for calculation of Uncollectibles. In
30 Objection 16, the OCC objects to the use of the same factor when
31 calculating the Gross Revenue Conversion Factor and offers its calculation
32 as an alternative.

33 **11. Q. Do you agree with the OCC on either objection?**

² Case No. 12-1685-GA-AIR, *Company response to OCC-INT-01-037*

³ Case No. 12-1682-EL-AIR, *Direct Testimony of James Gould*, February 19, 2013, page 13

⁴ Case No. 12-1685-EL-AIR, *Company response to Staff Data Request No. 138*

1 A. No I do not. I believe that the Company's use of a one-year average ending
2 on the Date Certain is reasonable, especially considering that this average
3 reflects the amounts actually paid to the parent company. The OCC's
4 calculation uses only the last eight months which happens to be the lowest.
5 Admittedly, there is a drop in the rate from December 2011 to January
6 2012, but this is not necessarily indicative of the rate going forward.
7 Therefore, Staff believes that Duke's calculation of the Time Value factor
8 is reasonable for use in both the Uncollectible Account Expense formula
9 and the Gross Revenue Conversion Factor.

10
11 **12. Q. And what is the nature of OPAE's Objection 3?**

12
13 A. OPAE objects to Staff's use of the statutory federal and state income tax
14 rates and advocates for the use of actual effective tax rates paid by Duke.
15 OPAE suggests that Staff has not verified whether or not the Company
16 actually pays the statutory rate of 35% and cites a study that claims that
17 Duke paid less than this amount in recent years.

18
19
20 **13. Q. Do you agree with OPAE's objection?**

21
22 A. No. Staff normalizes taxes at the effective rate of the utility. This ensures fair
23 treatment of both ratepayers and investors by properly matching expenses
24 with revenues and allocating annual costs to the customers using those
25 services. The study that OPAE cites reports the effective tax rate for the
26 entire Duke Corporation, which includes both electric and natural gas
27 companies in multiple states and international holdings. This study does
28 not attempt to report the effective tax rates for Duke's Ohio utilities nor
29 does it make any attempt at examining state income tax.

1 **14. Q. Does this conclude your prefiled Direct Testimony?**

2

3 A. Yes. However, I reserve the right to submit supplemental testimony as
4 described herein, as new information subsequently becomes available or in
5 response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Testimony of Robert P. Fadley submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties listed below, this 19th day of March, 2013.

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Case No(s). 12-1682-EL-AIR, 12-1683-EL-ATA, 12-1684-EL-AAM

Summary: Testimony electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO