

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke	:	
Energy Ohio Inc., for an Increase in	:	Case No. 12-1682-EL-AIR
Electric Distribution Rates.	:	
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	:	Case No. 12-1684-EL-AAM
Accounting Methods	:	

PREFILED TESTIMONY
OF
KERRY J. ADKINS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO
UTILITIES DEPARTMENT
ACCOUNTING AND ELECTRICITY DIVISION

STAFF EX. ____

March 20, 2013

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

2 A. My name is Kerry J. Adkins and my business address is 180 East Broad
3 Street, Columbus, Ohio 43215-3793.

4

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

6 A. I am employed by the Public Utilities Commission of Ohio (Commission or
7 PUCO) as a Public Utilities Administrator 2 in the Accounting and
8 Electricity Division of the Utilities Department. In that capacity, I manage
9 and participate on Commission Staff (Staff) teams that review natural gas,
10 electric, and water utilities' applications for recovery of certain costs asso-
11 ciated with infrastructure replacement and capital improvement programs.
12 In addition, I serve on Staff teams that review utility applications in base
13 rate proceedings and perform other related duties as assigned.

14

15 3. Q. Please briefly describe your educational background and work experience.

16 A. I received a B.A. degree from Ohio Northern University and a Master of
17 Public Administration degree with concentrations in regulatory policy and
18 fiscal administration from The Ohio State University. I began my
19 employment with the PUCO in 1989 as a Researcher II in what was then

1 the Consumer Services Department's Nuclear Division. Since that time, I
2 have held a number of analyst and management positions at the
3 Commission. I was assigned to my present position in January 2008. Prior
4 to my employment with the PUCO, I was employed as an Administrative
5 Deputy for the City of Whitehall, Ohio.

6
7 4. Q. Have you previously testified before the Commission?

8 A. Yes. I have testified before the Commission in several rate and enforce-
9 ment proceedings and customer complaint cases.

10
11 5. Q. What is the purpose of your Testimony in this proceeding?

12 A. I am responding to Duke Energy Ohio, Inc.'s (Duke or Company)
13 Objection 2 concerning the Staff's recommendation that the Company's
14 rate base should not include an allowance for materials and supplies
15 because it did not file a lead/lag study.

16
17 6. Q. In Objection 2 Duke states that "Staff's recommendation unnecessarily
18 confuses and is contrary to the plain language of R.C. 4909.15(A), which in

1 pertinent part, explicitly provides for a “reasonable allowance for materials
2 and supplies *and* cash working capital as determined by the commission.”
3 (Emphasis in original.) How do you respond?

4 A. First of all, I will note that I am not an attorney and that I will leave legal
5 interpretations of what was meant in statutory language or Commission
6 rules up to the Commission and relevant courts. I am, however,
7 experienced in enforcing Commission rules and familiar with and
8 experienced in applying the Commission’s rules and established policies
9 governing utility standard filing requirements for base rate cases and
10 determining the rate base working capital allowance.

11 Secondly, I would suggest upon advise-of counsel, that, in its quotation of
12 selected language from R.C. 4909.15(A), Duke placed the emphasis on the
13 wrong segment of the quoted language. The emphasis should be placed on
14 the phrase “as determined by the commission,” because the Commission
15 has long determined that materials and supplies and cash working capital
16 are components of a total allowance for working capital that may be
17 included in a utility’s rate base and that a lead/lag study is required to
18 determine the working capital allowance.¹ It has been settled practice for

¹ See for example Cincinnati Gas & Electric Co., Case No. 91-410-EL-AIR (May 13, 1992); Ohio Edison Co., Case No. 89-1001-EL-AIR (August 16, 1990); Columbia Gas of Ohio, Case No. 89-516-GA-AIR (April 5, 1990); Ohio Edison Co., Case No. 87-689-EL-AIR, (January 26, 1988); Cleveland Electric Illuminating, Case No. 86-2025-EL-AIR

1 many decades that the total allowance for working capital is the net sum of
2 various components that involve capital supplied by investors over and
3 above the investments in plant and other rate base items that is necessary to
4 bridge the gap between the time expenditures are made to provide utility
5 services and collections are received for those services. Historically, such
6 working capital components have included: fuel inventory; Percentage of
7 Income Payment Program (PIPP) uncollectibles; materials and supplies;
8 and the result produced by netting revenue lag dollars (i.e., investor funds
9 necessary to cover the payment lag from when utility services were
10 rendered to the date cash is received in payment for that service) against
11 expense lead dollars (i.e., non-investor funds available to the utility from
12 delayed tax payments and the time period between when services such as
13 employee labor and vendor products and services are provided and the
14 utility pays for those services), which is commonly referred to as cash
15 working capital. For a distribution utility such as Duke, the allowance for
16 working capital generally includes the materials and supplies and cash
17 components and may include PIPP uncollectibles. Fuel inventory is not
18 included for distribution companies. Furthermore, it has been a settled

(December 16, 1987); Toledo Edison Co., Case No. 86-2026-EL-AIR (December 16, 1987); Ohio Power Co., Case No. 85-726-EL-AIR (July 10, 1986); Cleveland Electric Illuminating, Case No. 85-675-EL-AIR (June 24, 1986); Ohio Bell Telephone Co., Case No. 84-1435-TP-AIR (December 10, 1985); Cincinnati Bell Telephone Co., Case No. 84-1272-TP-AIR (October, 29, 1985); Cleveland Electric Illuminating, Case no. 84-188-EL-AIR (March 7, 1985).

1 matter since 1984 that larger utilities must file a lead/lag study in order
2 determine and receive an allowance for working capital.² Moreover, the
3 Ohio Supreme Court has upheld the Commission's use of a lead/lag study
4 to compute a utility's working capital requirement.³

5 Next, and again upon advice of counsel, I would maintain that an argument
6 that the Commission's allowance for working capital is anything other than
7 a total allowance for working capital that is comprised of various cash-
8 related subcomponents (including materials and supplies) or that a lead/lag
9 study is not required is flatly wrong. I would point to all of the cases cited
10 in Footnote 1 and especially to the Commission's Opinion and Order in
11 Case No. 91-410-EL-AIR where the Commission, citing to an Ohio
12 Supreme Court case,⁴ stated that "There is no question that the Commission
13 has wide discretion in determining the appropriate working capital
14 allowance in utility rate cases."⁵ Also in that Order, the Commission stated
15 that "Section 4909.15 (A) (1), Revised Code, requires only that the
16 Commission recognize "a reasonable allowance for working capital."

² Case No. 91-410-EL-AIR, *In the Matter of the Application of the Cincinnati Gas & Electric Company for an Increase in Electric Rates in Its Service Area*, May 13, 1992, Opinion and Order at 34 (Case No. 91-410-EL-AIR Opinion and Order).

³ *Cincinnati Gas & Electric Co. v. Public Utilities Comm'n of Ohio*, 67 Ohio St. 3d 517, 519-520 (1993).

⁴ *Consumers' Counsel v. Pub. Util. Comm.*, 32 Ohio St. 3d 263 (1987)

⁵ Case No. 91-410-EL-AIR Opinion and Order, at 34

1 Clearly the statute does not require separate allowances for each of those
2 items, as argued by the applicant, but, instead, contemplates only a single
3 allowance.”⁶ The Commission went on to state, “The correct interpretation
4 of the statute is, as IEC and the staff point out, that items such as fuel
5 inventory and PIP uncollectibles are components of cash working capital
6 which, when netted with materials and supplies, cannot result in a negative
7 working capital allowance.”⁷ (Emphasis supplied.) In addition, the
8 Commission’s rules governing standard filing requirements for utility rate
9 cases require that utilities file, on Schedule B-5, a calculation supporting a
10 total allowance for working capital that is comprised of multiple
11 components. The title of O.A.C. 490-7-01 Appendix A, Section (E) is
12 “Working capital” and the title of Section (E)(1) is “Allowance for working
13 capital (Schedule B-5).” Section (E)(1) provides instructions to utilities to
14 “Provide a summary schedule showing the calculation of working capital
15 included in the proposed rate base. Show each individual component and
16 describe the methodology used to calculate each component. An allowance
17 for cash working capital shall be supported by a recent lead-lag study.”
18 (Emphasis supplied.) Section (E)(2) then provides instructions for
19 preparation of a more detailed schedule (Schedule B-5.1) that shows the

⁶ Id., at 38.

⁷ Id.

1 calculation of “Miscellaneous working capital items” that support the items
2 listed on Schedule B-5. In my experience, these words as well as the
3 construction of the Commission’s Standard Filing Requirements make it
4 clear that a working capital allowance is comprised of multiple components
5 and that a lead/lag study is required.

6 Lastly, in response to Duke’s allegation that the Staff’s recommendation to
7 not allow it to recover working capital for materials and supplies
8 “unnecessarily confuses” the matter, I would suggest that it is Duke that is
9 attempting to sow confusion. The Company knows full well (or it should)
10 what the Commission’s policies are regarding the various components and
11 computation of the allowance for working capital, that the policies have
12 been in place for decades, and that a lead/lag study is required. After all,
13 the quotations above from the Commission’s Opinion and Order from Case
14 No. 91-410-EL-AIR was an electric base rate case for the Cincinnati Gas &
15 Electric Company, Duke’s predecessor company. In its Opinion and Order
16 in that case, the Commission expressly rejected the very same arguments
17 that Duke raises in this case and the Ohio Supreme Court affirmed the
18 Commission’s findings. Duke’s attempts to confuse long-settled matters
19 should be rejected.

1 7. Q. Can you explain further why a lead/lag study is necessary for determining
2 the allowance for working capital and why the Staff recommended that
3 Duke not receive an allowance for materials and supplies because it failed
4 to file a lead/lag study?

5 A. Yes. As demonstrated above, the working capital allowance is the net sum
6 of various cash-related components that balance investor supplied funds
7 against non-investor supplied funds. A lead/lag study determines the
8 average amount of day-to-day operating cash that investors must supply if
9 the revenue lag exceeds the expense leads or cash that is available for other
10 working capital needs (such as materials and supplies) if the expense leads
11 exceed the revenue lag. In other words, if the lag for the period of time
12 between when the utility receives products or services and actually pays for
13 those goods or services exceeds the revenue lag, then the lead/lag study
14 would be negative, meaning that utility has cash available that it can use for
15 other working capital items. On Schedule B-5, the various working capital
16 components are added together. If the lead/lag study results in a negative
17 amount, then this amount is used to reduce the amounts requested for the
18 other working capital items, such as materials and supplies and PIPP
19 uncollectibles, potentially reducing the working capital allowance down to
20 zero. The Commission does not apply a negative working capital
21 allowance.

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In this case, the Staff could not determine if the cash component of the working capital allowance was positive or negative because the Company did not file a lead/lag study. As a result, the Staff could not determine the total allowance for working capital that should be applied. If the results of a lead/lag study for Duke were negative but this source of cash was not used to offset its other working capital items, then the Company’s investors would receive a return on an inflated rate base (the materials and supplies balance plus the non-investor supplied cash) and garner excess returns. Because the Staff could not make a determination in this case, it recommended that no allowance for working capital be recognized.

8. Q. Do you have any recommendations?
- A. Yes. I recommend that the Commission adopt the Staff’s position and reject Duke’s request for a working capital allowance because Duke failed to file a lead/lag study supporting one.

1 9. Q. Does this conclude your Prepared Direct Testimony?

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

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Testimony of Kerry J. Adkins submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties listed below, this 20th day of March, 2013.

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