

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of **Ohio** :
Power Company for Authority to : Case No. 13-2385-EL-SSO
Establish a Standard Service Offer :
Pursuant to Section 4928.143, Revised :
Code, in the Form of an Electric Security :
Plan. :

In the Matter of the Application of **Ohio** :
Power Company for Approval of Certain : Case No. 13-2386-EL-AAM
Accounting Authority. :

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

Staff Exhibit _____

May 20, 2014

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

2 A. My name is Doris McCarter. My business address is 180 East Broad
3 Street, Columbus, Ohio 43215.
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 (PUCO). I am
7 Chief of the Capital Recovery and Financial Analysis Division within the
8 Utilities Department.
9

10 3. Q. Please briefly describe your educational and professional background.

11 A. I received a Masters in Public Administration from Columbia University. I
12 have been employed by the PUCO since December, 1989 in various capaci-
13 ties; Commissioner Aide to Commissioner Richard M. Fanelly, Utility
14 Specialist 2 in the Telecommunications Division of the Utilities Depart-
15 ment, and Deputy Director of the Service Monitoring and Enforcement
16 Department.
17

18 4. Q. Please describe your responsibilities.

19 A. My duties include establishing policies, practices, and procedures for the
20 Division's regulatory analysts who conduct audits and investigations of
21 public utility companies subject to the jurisdiction of the PUCO. I have
22 overall responsibility for certain aspects of the Staff's revenue requirement

1 determination during rate setting investigations. The calculation of depreci-
2 ation expense, accumulated depreciation reserve and cost of capital are
3 under my purview. I also have overall responsibility for management and
4 operations reviews, corporate separation compliance, financing approvals,
5 and the administration of the significantly excessive earnings test for elec-
6 tric distribution companies.

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

9 A. The purpose of my testimony is to address those aspects of AEP's proposed
10 Distribution Investment Rider (DIR) for which Staff is recommending a
11 modification, clarification and additional reporting.

12
13 6. Q. Will you summarize your position?

14 A. Staff does not oppose the continuation, in general, of the DIR mechanism.
15 However, Staff is recommending several modifications to the DIR as pro-
16 posed by AEP.

17
18 7. Q. If the Commission approves a continuation of a DIR, what modifications
19 should the Commission make to the proposed DIR?

1 **General Plant**

2 A. No General Plant costs should be included in the DIR. AEP Witness Dias
3 testified that the primary reason AEP wants to include General Plant in the
4 DIR is the planned installation of a replacement radio system¹. AEP will
5 not begin installing this replacement radio system until 2017 and the system
6 will not be used and useful until sometime after installation. Therefore,
7 there is no overriding need to include General Plant in Service costs in the
8 DIR at this time. AEP's proposed ESP is projected to end May 2018. At
9 that time, a review can be undertaken of the new radio system and the
10 recovery of costs associated with it, including their prudence.

11
12 In addition, the overall nature of the assets recorded in the General Plant
13 accounts are more appropriately considered for recovery in a distribution
14 rate case. Expenses such as office furniture are not directly related to main-
15 taining reliability of distribution service, which is the purpose of the DIR.

16
17 There is one exception to Staff's position regarding the recovery of General
18 Plant using the DIR mechanism. Staff is not opposed to the inclusion of
19 gridSMART Phase I General Plant costs in the DIR. Staff is much more
20 comfortable with the General Plant in-service costs in the gridSMART

¹ *In re Ohio Power Co.*, Case Nos. 13-2358-EL-SSO, *et al.* (Direct Testimony of
AEP Witness Selwyn J. Dias at 19) (Dec. 20, 2013).

1 Phase I because that in-service plant has been granularly audited by Staff
2 and those specific costs have been found to be appropriate for recovery by
3 the Commission.

4 **Gross-Up Factor**

5 Another area of modification is the Gross-Up Factor. AEP's proposed
6 Gross-Up factor is 100.44% and is comprised of the Commercial Activity
7 Tax and the assessments related to AEP's obligation to fund the PUCO and
8 OCC. Staff believes that the inclusion of a revenue increase for assess-
9 ments related to the PUCO and OCC is inappropriate. The total dollar
10 amount of AEP's contribution to the support of the PUCO and OCC's
11 budgets is driven solely by those agencies' budgets. The PUCO and OCC
12 budgets have not increased and therefore AEP has no additional funding
13 requirements in this area. Only the Commercial Activity Tax should apply;
14 therefore the rate should remain as it is today, .260%. This adjustment
15 should be made to any riders where AEP has included the PUCO and OCC
16 assessment factor.

17 **Property Tax Adjustment**

18 Staff concurs with the recommendation of OCC Witness Effron that the
19 depreciation reserve for the purpose of calculating property taxes should be
20 adjusted to eliminate the cumulative amortization of the excess depreciation

1 reserve and the net plant to which the property tax is applied should be cor-
2 respondingly reduced.

3 **Revenue Requirement Charge Calculation**

4 Staff opposes the use of AEP's DIR customer charge calculation for 2015,
5 2016 and 2017. Staff concurs with the specific annual (January 1 to
6 December 31) revenue caps proposed by AEP. However, in translating
7 these caps to the estimated percentage of bill charge AEP uses a calculation
8 that bases the percentage on an average using five months of the current
9 year cap with seven months of the succeeding year's cap. Utilizing the suc-
10 ceeding year's cap in the current year cap percentage calculation effectively
11 allows the increase in the succeeding year's cap to raise the percentage
12 charged on current customer bills, a result Staff does not support.

13
14 8. Q. If the Commission approves a continuation of a DIR, do you have any rec-
15 ommendations in relation to any additional information AEP should include
16 in subsequent DIR filings?

17 A. AEP should file what plant in service is being recorded and recovered in
18 the Enhanced Vegetation Rider, the gridSMART Phase II Rider and the
19 Solar Rider (and any other rider which is recovering Distribution plant in
20 service). AEP should provide this information by Plant Account and Sub-
21 account for each rider. Providing this information to the Commission is

1 critical because it will allow Staff to ensure that no plant in service costs
2 related to other riders are being recovered in the DIR.

3
4 Staff also recommends that the Commission continue to require AEP to use
5 the jurisdictional allocations and accrual rates for each account and subac-
6 count that was approved in AEP's prior AIR case², subject to Staff's excep-
7 tion for gridSMART depreciation rates discussed later in my testimony.

8
9 In each DIR filing, AEP should include, for each account and subaccount, a
10 full reconciliation between the functional ledger and FERC form filings as
11 well as detailed workpapers showing the jurisdictional allocation, accrual
12 rates and reserve balances of each account and subaccount. AEP should be
13 directed to provide this information for any rider being used to collect costs
14 recorded in the Distribution Plant Accounts, by rider and as a grand total.
15 Commission Staff needs this information to determine whether the appro-
16 priate allocation of cost recovery is occurring between the DIR and other
17 riders. This information will also help Staff ensure that the Company is
18 adhering to the accrual schedules ordered in the previous rate case.

19

² *In the Matter of the Pre-notification of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if their Proposed Merger is Approved, as a Merged Company (Collectively AEP Ohio) for an Increase in Electric Distribution Rates, Case Nos. 11-351-EL-AIR.*

1 AEP should also be directed to detail the DIR revenue collected by month
2 and to date in its filings to demonstrate compliance with the annual revenue
3 caps authorized by the Commission.

4
5 Staff also recommends that any further changes AEP proposes to make to
6 its capitalization policy should be highlighted and quantified in the DIR fil-
7 ing preceding the implementation of the change. This would allow the
8 Commission to consider the proposed change and ensure that there is no
9 inappropriate recovery from AEP customers.

10
11 Lastly, the Staff recommends the Commission reaffirm its directive to AEP
12 to file a fully updated depreciation study by November 2016 with a study
13 plant date of December 31, 2015.

14
15 9. Q. What is your opinion regarding the recovery of gridSMART Phase 1 costs
16 in the DIR should the Commission approve a DIR for AEP?

17 A. In general, Staff does not object to the recovery of the incremental plant in
18 service associated with the approved costs related to gridSMART Phase I in
19 the DIR. However, Staff has a few recommendations.

20
21 Only those capital costs specifically approved by the Commission for
22 recovery in gridSMART Phase I should be recovered in the DIR.

1
2 Based on Staff's recent review of the average service life of AMI meters,
3 Staff recommends that the service life associated with the gridSMART
4 AMI meters should be adjusted to 15 years.

5
6 Other than AMI meters, the accrual rates for the plant in service associated
7 with the gridSMART Phase I case should utilize those adopted in the previ-
8 ous AIR case, except for the Communications costs approved in the
9 gridSMART Phase I case, which Staff understands reflect the unique
10 gridSMART communications equipment. For those accrual rates, Staff rec-
11 ommends that the service lives adopted in the gridSMART Phase 1 case be
12 used, unless subsequently modified by the Phase II gridSMART case.

13
14 Lastly, AEP should make a detailed filing with its first and second DIR fil-
15 ing pursuant to the Order in this case which demonstrates these changes
16 have been appropriately made.

17
18 10. Q. Do you concur with AEP'S proposed caps on the amount of the DIR?

19 A. Staff does not object to the annual DIR revenue caps proposed by AEP.

20 Because recovery is based on actual plant in service related to distribution
21 infrastructure, recovery will only incur on investments actually made by
22 AEP. Based upon AEP's representations, Staff understands that the pro-

1 posed caps are inclusive of the revenue requirement associated with the
2 plant in service currently being recovered in the Phase 1 GridSMART
3 Rider. Staff believes AEP's proposed caps are sufficient to fund its pro-
4 jected capital expenditures program through May 2018.

5
6 11. Q. Do you have a recommendation as to when the DIR rate should sunset if
7 the Commission approves a DIR for AEP?

8 A. Staff recommends that the DIR recovery mechanism and associated rate(s)
9 sunset with the end of the ESP. After that time, should AEP wish to
10 recover any of the incremental plant in service incurred since the inception
11 of the ESP, it would be necessary to file a rate case to recover the incre-
12 mental plant in service unless a subsequent ESP has been approved by the
13 Commission that continues the DIR recovery mechanism for the incurred
14 incremental plant in service. In addition, due to the timing of the quarterly
15 filings and quarterly update process, no additional costs should be included
16 in the DIR after May 31, 2018 and a reconciliation filing should be filed
17 within 90 days of May 31, 2018.

1 12. Q. Does this conclude your testimony?

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

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of **Doris McCarter** 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 20th day of May, 2014.

/s/ Devin D. Parram

Devin D. Parram

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Summary: Testimony Prefiled Testimony of Doris McCarter submitted on behalf of the Staff of the Public Utilities Commission of Ohio by Assistant Attorney General Devin Parram electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio