

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio	:	
Edison Company, The Cleveland Electric	:	Case No. 14-1297-EL-SSO
Illuminating Company and The Toledo	:	
Edison Company for Authority to Provide	:	
for a Standard Service Offer Pursuant to	:	
R.C. 4928.143 in the Form of an Electric	:	
Security Plan	:	

**PREFILED TESTIMONY
OF
DORIS MCCARTER
RATES AND ANALYSIS DEPARTMENT
FORECASTING, MARKETS AND CORPORATE OVERSIGHT DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

September 18, 2015

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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 Forecasting, Markets and Corporate Oversight Division within
8 the Rates and Analysis 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 and have held the
13 following previous positions: Commission Aide to Commissioner Richard
14 M. Fanelly (1989 to 1997), Utility Specialist 2 in the Telecommunications
15 Division of the Utilities Department (1997 to 2000), and Director of the
16 Service Monitoring and Enforcement Department (2000 to 2009).
17

18 4. Q. Please describe your current responsibilities.

19 A. As Chief of the Forecasting, Markets and Corporate Oversight Division my
20 duties include establishing policies, practices, and procedures for the Divi-
21 sion's regulatory analysts who conduct audits and investigations of public
22 utility companies subject to the jurisdiction of the PUCO. I have overall

responsibility for certain aspects of the Staff's revenue requirement determination during rate setting investigations. The review of depreciation practices of Ohio's utilities and cost of capital are under my purview. I also have overall responsibility for management and operations reviews, corporate separation compliance, financing approvals, and the administration of the Significantly Excessive Earnings Test (SEET) for electric distribution companies. In addition, my division is responsible for analyzing the retail energy market, for forecasting the demand and supply and pricing of energy for the state of Ohio, and for ensuring the overall energy emergency preparedness of Ohio's utilities and fuel providers.

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

A. There are four areas I will address, the requested Significantly Excessive Earnings Test (SEET) adjustments, the Incremental Tax Provision, the Government Directives Recovery Rider (GDR), and the continuation of the Delivery Capital Recovery Rider (DCR).

SEET ADJUSTMENTS

6. Q. What is your recommendation with respect to the request of Ohio Edison Company (OE), The Cleveland Electric Illuminating Company (CEI) and The Toledo Edison Company (TE) (collectively, the Companies) to adjust the SEET calculation by excluding the impact: (i) of a reduction in equity

1 resulting from any write-off of goodwill, (ii) of deferred carrying charges,
2 and (iii) associated with any additional liability of writing-off regulatory
3 assets due to implementing the Companies' fourth electric security plan
4 (ESP IV)?

5 A. I do not believe it is appropriate at this time for the Commission to grant
6 these exclusions because the Companies' request is premature.

7
8 First, I do not believe the Companies have previously made adjustments in
9 their annual SEET calculations for goodwill or for additional liability of
10 write-offs related to implementing the ESP. Also, there is no identified
11 goodwill write-off expected within the period of the proposed ESP. In
12 addition, the provision that the SEET mechanism also have an adjustment
13 to reflect "any additional liability or write-off of regulatory assets due to
14 implementing the Companies' ESP IV¹" does not lend itself to any defined
15 costs for the Commission's consideration at the present time. Rather, such
16 an exemption request, even a theoretical one, should occur when there are
17 actual facts surrounding the request in order that the Commission can make

¹ *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO ("ESP IV Case") (Direct Testimony of S. Fanelli at 16) (Aug. 4, 2014).

1 an informed decision. Furthermore, the request to exempt deferred carrying
2 charges should similarly be denied. When presented with a non-stipulated
3 SEET case, the Commission specifically ruled that earnings should not be
4 adjusted for deferrals.² Lastly, the appropriate case in which to raise
5 requests to modify the SEET calculation should occur within the annual
6 SEET filing itself when the Commission will have the benefit of all of the
7 facts and issues surrounding such a request.

8 **INCREMENTAL TAX PROVISION**

9 7. Q. What is your recommendation with respect to the Companies' request for
10 an Incremental Tax Provision?

11 A. I recommend that the Commission also deny this request. This provision,
12 which was previously granted in the standard service offer (SSO) stipula-
13 tion,³ was a negotiated item that has not been utilized. Given that the
14 length of the proposed SSO is three years and the unlikelihood that tax
15 increases during that period would be significant enough to justify this
16 placeholder, I believe this request is premature.

² *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Administration of the Significantly Excessive Earnings Test under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code*, Case No. 10-1261-EL-UNC (Opinion and Order at 31) (Jan. 11, 2011).

³ *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 12-1230-EL-SSO (Opinion and Order at 57) (Jul. 18, 2012).

1 **GOVERNMENTAL DIRECTIVES RECOVERY RIDER**

2 8. Q. The Companies have also requested the creation of a Government
3 Directives Recovery Rider (GDR). Do you have additional recommenda-
4 tions associated with this request other than that provided by Staff Wit-
5 nesses Bossart, Pearce and Schaefer?

6 A. I do. Staff witnesses Bossart, Pearce and Scheafer address the recovery
7 mechanism of a couple of areas of specific costs proposed to be included in
8 the GDR. I will address the vagueness of the general types of costs that
9 could be included and the lack of any estimation of those costs.

10
11 First, the Companies do not provide a list of the costs or accounts they
12 would seek to recover through this non-bypassable rider. In fact, the Com-
13 panies only provide general examples of the types of costs that may be
14 included, thereby creating an open-ended recovery vehicle for any costs the
15 Companies incur, for anything the Commission may order of them which
16 may have costs associated with it, including, “costs which have been
17 approved on a per customer basis in prior regulatory proceedings.”⁴ More-
18 over, not only do the Companies propose the inclusion of capital costs be
19 included in this rider, but they also propose to include any expenses the

4

ESP IV Case, (Direct Testimony of B. McMillen at 4) (Aug. 4, 2014).

1 Companies may incur where there is involved a Commission order direct-
2 ing the Companies to do anything.

3
4 Similar to other provisions of the Companies' proposed ESP provisions
5 which I address in my testimony, this request is another illustration of the
6 Companies' attempt to eliminate all cost recovery risks. Again, the crea-
7 tion of this placeholder is premature, especially given the short duration of
8 the ESP. Because there is no specific proposal before the Commission, it
9 should deny this rider, even as a deferral mechanism. Given the short dura-
10 tion of the SSO and the various other mechanisms which can be considered,
11 it is more appropriate to explore specific cost recovery proposals associated
12 with any given initiatives as they occur.

13 **DELIVERY CAPITAL RECOVERY RIDER**

14 9 Q. What is your recommendation with respect to the request of the Companies
15 to continue and increase the DCR?

16 A. If the Commission grants an extension of a rider to recover increases in dis-
17 tribution capital expenditures, several modifications should be made to the
18 Companies' request. Listed below are my proposed modifications. Each is
19 addressed in detail.

20 1) The Commission should deny the request to increase the annual rev-
21 enue caps to the levels proposed by the Companies.

- 1 2) The Commission should eliminate all accounts other than FERC
2 Uniform System of Accounts (USOA) account numbers 360 to 374
3 and distribution related capital costs contained in account numbers
4 350 to 358.
- 5 3) The Commission should eliminate the use of projected plant in
6 service (PIS) from the calculation.
- 7 4) The Commission should modify the individual company allocation
8 ceilings of the annual revenue caps.
- 9 5) The filing dates of the DCR quarterly updates should be on or about
10 January 31st, April 30th, July 31st and October 31st. The review date
11 associated with the annual compliance audit should be based upon
12 the January 31st filing as well, and be based on plant balances as of
13 December 31st.
- 14 6) The Commission should require that the Companies file distribution
15 rate cases no later than 12 months before the end of the proposed
16 ESP.

17

18 10. Q. Why do you recommend the Commission modify the annual revenue cap
19 increases requested by the Companies?

20 A. The average annual revenue cap increase in the previous FE SSOs have
21 been approximately \$15 million. The Companies continue to meet their
22 electric distribution targets and they have not projected any major single

1 distribution capital project which would justify \$30 million in annual reve-
2 nue cap increases.

3
4 Also, the Companies' proposed revenue cap increase will be disproportion-
5 ately high given that I am recommending the removal from the DCR of
6 future increases to PIS associated with accounts other than account num-
7 bers 360 to 374 and distribution related capital costs in account numbers
8 350 to 358.

9
10 I recommend that, should the Commission approve the continuation of the
11 DCR, the annual revenue caps should remain at the \$15 million annual rev-
12 enue cap increase level. This level of annual revenue requirement cap
13 increase permits the continuing recovery of previously incurred incremental
14 PIS balances that were previously permitted recovery through the DCR and
15 for the continuation of distribution and transmission costs in the DCR for
16 account numbers 350 to 358 and 360 to 374. The annual revenue require-
17 ments caps for the DCR would be as follows: for the period of June 1, 2016
18 to May 31, 2017, the cap would be \$225 million; for the period June 1,
19 2017 to May 31, 2018, the cap would be \$240 million; and for the period
20 June 1, 2018 to May 31, 2019, the cap would be \$255 million.

1 11. Q. Why do you recommend the Commission eliminate the inclusion of the PIS
2 associated with accounts other than account numbers 360 to 374 and the
3 distribution related capital costs in account numbers 350 to 358?

4 A. PIS costs associated with accounts other than account numbers 360 to 374
5 and the distribution-related capital costs in account numbers 350 to 358
6 relate to assets recorded in General, Other, and Service Company Allocated
7 plant accounts. The overall nature of the assets recorded in the General,
8 Other and Service Company Allocated plant accounts are more appropri-
9 ately considered for recovery in a distribution rate case as these expenses
10 are not directly related to maintaining reliability of distribution service,
11 which is the purpose of the DCR. This is not a unique recommendation to
12 the Companies' request. Specifically, the inclusion of only net PIS in
13 accounts 360 to 374 has been Staff's position in AEP's most recent SSO
14 proceeding⁵ as well as in the Duke SSO proceeding⁶ and is the basis of the
15 Commission's inclusion of only these accounts in the distribution riders in
16 those two cases. However, since there are some specific costs directly
17 related to distribution reliability recorded in accounts 350 to 358 for the

⁵ *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Revised Code in the Form of an Electric Security Plan*, Case No. 13-2385-EL-SSO.

⁶ *In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer in the Form of an Electric Security Plan*, Case No. 14-841-EL-SSO.

1 Companies, I recommend that the Commission permit the inclusion of dis-
2 tribution related transmission capital costs, specifically the distribution
3 related net PIS increases associated with accounts 350 to 358.
4

5 12. Q. Why do you recommend the Commission modify the proposed DCR mech-
6 anism to exclude the use of projected net PIS?

7 A. The frequency of the quarterly DCR filings already permit the Companies
8 to begin recovery of their capital expenditures almost immediately upon
9 their incurrence. The use of projected capital recovery requirements based
10 upon future, projected expenditures creates unnecessary complexity to the
11 rider review. Additionally, given the very short intervals between rider
12 updates, the Companies will not be harmed by this proposal. Lastly, the
13 elimination of the use of projected net PIS will bring the Companies' DCR
14 mechanism more in line with that adopted by the Commission in the recent
15 AEP and Duke SSO cases thereby creating a more efficient review process
16 while not significantly negatively impacting the Companies' collection of
17 net PIS costs.
18

19 13. Q. What is your proposed modification to the company specific annual reve-
20 nue cap allocation?

1 A. I propose a modification to the current 70/50/30 percent annual revenue
2 caps for CEI, OE and TE, respectively. Specifically, the maximum allo-
3 cated cap to CEI should be 60 percent. Additionally, the maximum allo-
4 cated cap to OE should be adjusted to 55 percent. Lastly, TE's maximum
5 allocated cap should be reduced to 25 percent. Re-aligning the revenue cap
6 allocation in this manner more closely reflects the relative distribution
7 related PIS for each of the companies. These recommended internally allo-
8 cated caps (60/55/25 percent) still permit the Companies the ability to focus
9 spending on a particular electric distribution utility (EDU) when needed,
10 but takes into consideration the relative size of each EDU in terms of distri-
11 bution related PIS, and the potential rate increase impacts upon each of the
12 EDU's ratepayers.

13
14 14. Q. Do you have a recommended change to the filing dates of the DCR quar-
15 terly update filings?

16 A. The application dates of the quarterly filings should be adjusted back to the
17 dates ordered in the Companies' ESP II Case⁷, namely on or about January
18 31st, April 30th, July 31st and October 31st. The filing dates adopted in the

⁷ *In the Matter of the application and Stipulation and Recommendation of Ohio Edison Company, The Cleveland Electric Illuminating and The Toledo Edison Company for Authority to Establish a Standard Service Offer*, Case No. 10-388-EL-SSO.

1 Companies' ESP III case created an unforeseen issue with the annual com-
2 pliance audit. In order to be able to tie the beginning plant and reserve bal-
3 ances to FERC Form I, the plant balances need to be based on December
4 31st data. The current dates (as adopted in the Companies' ESP III) create
5 a difficulty in matching the final quarter's data, and therefore also the entire
6 year's data, with the December 31st plant balances and the FERC Form 1.
7 Since this filing is the basis of the annual compliance audit, it is my recom-
8 mendation that the filing dates return to those adopted in the Companies'
9 ESP II Case, which allowed that validation to occur smoothly. I also rec-
10 ommend that the Commission extend the due date of the compliance audit
11 report by 30 days, and thus adjust the remainder of the annual compliance
12 audit process by 30 days accordingly, in order to provide a full opportunity
13 to interested parties participating in the annual compliance audit to match
14 the beginning plant and reserve balances to the FERC Form 1 data. I rec-
15 ommend all other provisions of the current annual compliance audit con-
16 tinue if the DCR mechanism is allowed to continue.

17
18 15. Q. Do you have any additional recommendations that are not outright modifi-
19 cations to the DCR mechanism which you would recommend?

20 A. Yes. The Companies should be required to explicitly detail any changes to
21 their capitalization policies in order for the Commission to assess the

1 appropriateness of those changes and order any necessary adjustments to
2 the DCR.

3
4 16. Q. Staff recommends that the Commission require the Companies to file rate
5 cases no later than 12 months before the expiration of the proposed ESP IV.
6 Why?

7 A. At the time of ESP IV's expiration, approximately 10 years will have
8 passed since the Companies' last rate case. Staff believes that a holistic,
9 periodic review of each company's finances is necessary to ensure that all
10 costs are being appropriately incurred and recovered. A rate case permits
11 the overall earnings of the Companies to be reviewed along with all of its
12 revenues and expenses. As such, Staff believes it is a prudent regulatory
13 practice to gain a holistic understanding of the regulated distribution com-
14 pany on a regular basis. In an industry as dynamic as the electric utility
15 industry, a number of significant changes can occur within 10 years.

16
17 17. Q. Is Staff recommending a termination date for the DCR if granted by the
18 Commission?

19 A. Yes. If each company files a rate case no later than May 31, 2018, Staff rec-
20 ommends that the DCR terminates no later than May 31, 2019. In other
21 words, no further net PIS will be allowed to be recorded in the DCR after
22 that point and that there will be a true-up recovery period the following

1 quarter, if necessary, after which time no customers will be charged a DCR
2 rate. If the Companies do not a file rate case by May 31, 2018, the sunset
3 date for the termination of the DCR should be shortened by one year to that
4 date, making the DCR termination date May 31, 2018, with a true-up
5 recovery period the following quarter after which time no customers will be
6 charged a DCR rate.

7
8 18. Q. Does this conclude your testimony?

9 A. Yes, it does. However, I reserve the right to submit supplemental testi-
10 mony as described herein, as new information subsequently becomes avail-
11 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 18th day of September, 2015.

/s/ Steven L. Beeler

Steven L. Beeler

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