

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :
Power Company for Administration of the : Case No. 15-1022-EL-UNC
Significantly Excessive Earnings Test :
Pursuant to R.C. 4928.143(F) and Ohio :
Adm. Code 4901:1-35-10. :

In the Matter of the Application of Ohio :
Power Company for Administration of the : Case No. 16-1105-EL-UNC
Significantly Excessive Earnings Test :
Pursuant to R.C. 4928.143(F) and Ohio :
Adm. Code 4901:1-35-10. :

**PREFILED TESTIMONY
OF
JOSEPH P. BUCKLEY
FORECASTING, MARKETS AND CORPORATE OVERSIGHT DIVISION
RATES AND ANALYSIS DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

August 15, 2016

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

2 A. My name is Joseph P. Buckley. My business address is 180 E. Broad
3 Street, Columbus, Ohio 43215.
4

5 2. Q. By who are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO).
7

8 3. Q. Would you please state your background?

9 A. I received a Bachelor of Science Degree in Economics from the Ohio State
10 University and a Master's Degree in Business Administration from the
11 University of Dayton. In 2000, I earned the Certified in Financial
12 Management (CFM) designation, awarded by the Institute of Management
13 Accountants. Also I attended, The Annual Regulatory Studies Program
14 sponsored by The National Association of Regulatory Utility Commis-
15 sioners (NARUC) and The Training for Utility Management Analyst also
16 sponsored by NARUC. I have been employed by the PUCO since 1987.
17 Since that time I have progressed through various positions and was pro-
18 moted to my current position of Utility Specialist 3, in 2000. In addition, I
19 have worked on several joint Federal Communication Commission (FCC)
20 and NARUC projects and audits and served on the Midwest ISO's Finance
21 Committee as Vice-Chairman and Chairman. Also, in 2011, I was awarded
22 the professional designation Certified Rate of Return Analyst (CRRRA) by

1 the Society of Utility and Regulatory Financial Analysts. This designation
2 is awarded based upon experience and successful completion of a written
3 examination.
4

5 4. Q. What is your involvement in this proceeding?

6 A. I am responsible for determining if Ohio Power (OP) exceeded the common
7 equity threshold to be used in its Significantly Excessive Earnings Test
8 (SEET). Based on Staff's review of the information provided in OP's
9 applications Staff believes that OP did not incur excessive earnings in 2014
10 and 2015.
11

12 OP in 2014 earned an adjusted return on equity (ROE) of 12.01 percent and
13 12.72 percent after adjustments were made for Off System Sales (OSS) and
14 special accounting items (adjustments). These amounts fall within the
15 15.07 percent peer group analysis SEET threshold.
16

17 OP in 2015 earned a return on equity (ROE) of 11.73 percent (no adjust-
18 ments were necessary). This amount falls within the 15.27 percent peer
19 group analysis SEET threshold.
20

21 5. Q. What is the Staff's recommendation to the Commission in this proceeding?

1 A. The Staff recommends that the Commission find OP did not exceed the
2 common equity threshold in 2014 or 2015 and that no refunds are war-
3 ranted.

4
5 6. Q. Has the Staff reviewed OP's 2014 and 2015 earnings calculation and con-
6 cur with its results?

7 A. Yes. The Staff has reviewed OP's calculations and supporting information
8 and finds them to be in conformance with the SEET calculation method-
9 ology as approved previously by the Commission and is an accurate repre-
10 sentation of their 2014 and 2015 earnings.

11
12 7. Q. What methodology did Staff employee to determine significant excessive
13 earnings?

14 A. Staff used the companies that comprise the SPDR Select Sector Fund—
15 Utility (XLU) as its comparable group. The Staff then totaled the net
16 income earned by those companies and divided it by the total common
17 equity of each of the companies as detailed in Staff exhibit 1.

18
19 This produced a ROE of approximately 9.28 percent in 2014. The Staff
20 then applied an adder of in 5.79 percent, which is the standard deviation of
21 comparable companies multiplied by 1.64 (using a 95 percent confidence
22 threshold). When the ROE is combined with the adder the result is 15.07

1 percent. Staff determined any result under 15.07 percent would not be con-
2 sidered significantly excessive.

3
4 Staff followed the same methodology in 2015. This resulted in a ROE of
5 9.68 percent, an adder of 5.59 and an overall threshold of 15.27.

6
7
8 8. Q. Why did Staff use the components of XLU as its comparables group?

9 A. XLU is the most widely traded utility ETF (electronically traded fund) and
10 the components are selected by an independent third party that is not
11 involved in this proceeding. This independence removes any bias in
12 selecting the comparable group. That is one reason Staff would advocate
13 having an independent party selecting the comparables.

14
15 Also, Staff believes the use of XLU not only removes bias from the selec-
16 tion of the comparable group, but that it fosters use of a simplistic process
17 that produces consistent reasonable results. Having more parties under-
18 stand the process will allow greater participation in the review.

19
20 Finally the Commission used this approach in cases 11-4571-EL-UNC and
21 11-4572-EL-UNC, to determine the comparable ROE.

22

1 9. Q. Why did Staff adopt the standard deviation approach in establishing the
2 adder to the ROE?

3 A. In OP prior SEET cases (11-4571-EL-UNC and 11-4572-EL-UNC), the
4 Commission used this approach¹ in establishing the adder to the XLU
5 comparable group ROE.

6

7 10. Q. Does this conclude your testimony?

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

¹

In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test under Section 4928.143(F), Revised Code, and Rule 4901:35-10, Ohio Administrative Code, Case Nos. 11-4571-EL-UNC, et al. (Opinion and Order at 27) (Oct. 23, 2013).

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Joseph P. Buckley, 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 15th day of August, 2016.

/s/ Thomas W. McNamee

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		Common Equity	Common Equity	Common Equity	Net Income	Return on Equity
		2013	2014	Average	2014	2014
AES Corp.	AES	\$4,330	\$4,272	\$4,301	\$789	18.34%
AGL Resources, Inc.	GAS	\$3,568	\$3,784	\$3,676	\$562	15.29%
American Electric Power	AEP	\$16,085	\$16,820	\$16,453	\$1,634	9.93%
Ameron	AEE	\$6,544	\$6,713	\$6,629	\$593	8.95%
CenterPoint Energy	CNP	\$4,329	\$4,548	\$4,439	\$611	13.77%
Consolidated Edison	ED	\$12,245	\$12,585	\$12,415	\$1,092	8.80%
CMS Energy Corp.	CMS	\$3,454	\$3,670	\$3,562	\$477	13.39%
Dominion Resources Inc.	D	\$11,642	\$11,555	\$11,599	\$1,310	11.29%
DTE Energy Corp.	DTE	\$7,921	\$8,327	\$8,124	\$905	11.14%
Duke Energy	DUK	\$41,330	\$40,875	\$41,103	\$2,465	6.00%
Edison International	EIX	\$9,938	\$10,960	\$10,449	\$1,427	13.66%
Entergy Corp.	ETR	\$9,632	\$10,008	\$9,820	\$941	9.58%
Eversource Energy	ES	\$9,612	\$9,977	\$9,795	\$820	8.37%
Exelon Corp.	EXC	\$22,732	\$22,608	\$22,670	\$1,623	7.16%
FirstEnergy Corp.	FE	\$12,692	\$12,420	\$12,556	\$213	1.70%
Integrus Energy Group Inc.	TEG	\$3,261	\$3,300	\$3,281	\$275	8.38%
NextEnergy, Inc.	NEE	\$18,040	\$19,916	\$18,978	\$2,465	12.99%
Nisource Inc.	NI	\$5,887	\$6,175	\$6,031	\$531	8.80%
NRG Energy, Inc.	NRG	\$10,467	\$11,676	\$11,072	\$78	0.70%
Pepco Holdings, Inc.	POM	\$4,315	\$4,322	\$4,319	\$242	5.60%
Pinacle West Capital Corp.	PNW	\$4,194	\$4,367	\$4,281	\$398	9.30%
PG&E Corp.	PCG	\$14,342	\$15,748	\$15,045	\$1,436	9.54%
PPL Corp.	PPL	\$12,466	\$13,628	\$13,047	\$1,583	12.13%
Public Service Enterprise Group Inc.	PEG	\$11,608	\$12,185	\$11,897	\$1,518	12.76%
SCANA Corp.	SCG	\$4,664	\$4,987	\$4,826	\$538	11.15%
Sempra Energy	SRE	\$11,008	\$11,326	\$11,167	\$1,161	10.40%
Southern Co.	SO	\$19,008	\$19,949	\$19,479	\$1,969	10.11%
TEC Energy, Inc.	TE	\$2,334	\$2,575	\$2,455	\$206	8.39%
Wisconsin Energy Corp. WEC	WEC	\$4,233	\$4,420	\$4,327	\$588	13.59%
Xcel Energy, Inc.	XEL	\$9,566	\$10,214	\$9,890	\$1,021	10.32%
		\$311,447	\$323,910	\$317,679	\$29,471	9.28%
					Standard Deviation	3.53%
					Multiplier	1.64
					See Threshold	15.07%

		Common Equity	Common Equity	Common Equity	Net Income	Return on Equity
		2014	2015	Average	2015	2015
AES Corp.	AES	\$4,272	\$3,149	\$4,272	\$306	7.16%
AGL Resources, Inc.	GAS	\$3,784	\$3,929	\$3,784	\$353	9.33%
American Electric Power	AEP	\$16,820	\$17,892	\$16,820	\$2,052	12.20%
Ameron	AEE	\$6,713	\$6,946	\$6,713	\$630	9.38%
CenterPoint Energy	CNP	\$4,548	\$3,461	\$4,548	\$465	10.22%
Consolidated Edison	ED	\$12,576	\$13,052	\$12,576	\$1,193	9.49%
CMS Energy Corp.	CMS	\$3,670	\$3,938	\$3,670	\$523	14.25%
Dominion Resources Inc.	D	\$11,555	\$12,664	\$11,555	\$1,899	16.43%
DTE Energy Corp.	DTE	\$8,327	\$8,772	\$8,327	\$727	8.73%
Duke Energy	DUK	\$40,875	\$39,727	\$40,875	\$2,816	6.89%
Edison International	EIX	\$10,960	\$11,368	\$10,960	\$1,020	9.31%
Entergy Corp.	ETR	\$10,008	\$9,257	\$10,008	\$1,075	10.74%
Eversource Energy	ES	\$9,977	\$10,352	\$9,977	\$878	8.80%
Exelon Corp.	EXC	\$22,608	\$25,793	\$22,608	\$2,269	10.04%
FirstEnergy Corp.	FE	\$12,420	\$12,421	\$12,420	\$578	4.65%
NextEnergy, Inc.	NEE	\$19,916	\$22,574	\$19,916	\$2,752	13.82%
NRG Energy, Inc.	NRG	\$11,676	\$5,434	\$11,676	-\$57	-0.49%
Pepco Holdings, Inc.	POM	\$4,322	\$4,413	\$4,322	\$327	7.57%
Pinacle West Capital Corp.	PNW	\$4,367	\$4,584	\$4,367	\$437	10.01%
PG&E Corp.	PCG	\$15,748	\$16,576	\$15,748	\$888	5.64%
PPL Corp.	PPL	\$13,628	\$9,919	\$13,628	\$1,489	10.93%
Public Service Enterprise Group Inc.	PEG	\$12,185	\$13,066	\$12,185	\$1,679	13.78%
SCANA Corp.	SCG	\$4,987	\$5,443	\$4,987	\$746	14.96%
Sempra Energy	SRE	\$11,326	\$11,809	\$11,326	\$1,448	12.78%
Southern Co.	SO	\$19,949	\$20,592	\$19,949	\$2,367	11.87%
TEC Energy, Inc.	TE	\$2,575	\$2,559	\$2,575	\$174	6.76%
Xcel Energy, Inc.	XEL	\$10,214	\$10,601	\$10,214	\$984	9.63%
		\$310,006	\$310,291	\$310,149	\$30,018	9.68%
					Standard Deviation	3.41%
					Multiplier	1.64
					See Threshold	15.27%

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Case No(s). 15-1022-EL-UNC, 16-1105-EL-UNC

Summary: Testimony Prefiled Testimony of Joseph P. Buckley submitted by Assistant Attorney General Thomas McNamee 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