

**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.	:	

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

Staff Exhibit _____

June 29, 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. In addition, in 2011, I was awarded the professional designa-
14 tion Certified Rate of Return Analyst (CRRA) by the Society of Utility and
15 Regulatory Financial Analysts. This designation is awarded based upon
16 experience and successful completion of a written examination.
17

18 I have been employed by the PUCO since 1987. Since that time I have pro-
19 gressed through various positions and was promoted to my current position
20 of Utility Specialist 3, in 2000. In addition, I have worked on several joint
21 Federal Communication Commission (FCC) and National Association of
22 Regulatory Utility Commissioners (NARUC) projects and audits and

1 served on the Midwest Independent System Operator's (now Midcontinent
2 Independent System Operator, Inc.) Finance Committee as Vice-Chairman
3 and Chairman.
4

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

6 A. The purpose of my testimony is to sponsor the Staff recommended calcula-
7 tion of the new Distribution Modernization Rider amount for which the
8 customers of the Cleveland Electric Illuminating Company (CEI), the Ohio
9 Edison Company (OE), and the Toledo Edison Company (collectively, the
10 Ohio Regulated Distribution Utilities) will be allocated.
11

12 5. Q. What is Staff's recommendation?

13 A. Staff is recommending the new Distribution Modernization Rider be
14 created to allow for recovery of \$131 million from the Ohio Regulated
15 Distribution Utilities' customers. The rider would be established to allow
16 the Ohio Regulated Distribution Utilities to provide the appropriately
17 allocated support for First Energy Corporation (FE) to maintain investment
18 grade by the major credit rating agencies.¹
19

¹ Moody's Investors Services (Moody's) and Standard and Poor's Financial Services LLC (S&P) are credit rating agencies. Financial analysts rely on information provided by these agencies in performing financial analyses of capital markets, as did I.

1 6. Q. How did Staff arrive at the recommended amount?

2 A. Staff utilized Energy Operating Revenues² to establish an allocation factor
3 to assign the credit support percentage to the Ohio Regulated Distribution
4 Utilities as follows:

5

FirstEnergy Segment	2015 FY
FE Energy Operating Revenue	\$15,026,000
CEI Energy Operating Revenue	\$987,000
OE Energy Operating Revenue	\$1,773,000
TE Energy Operating Revenue	\$554,104
Ohio Regulated Distribution Utilities Energy Operating Revenue	\$3,314,104
Percentage of FE Energy Operating Revenue resulting from Ohio Regulated Distribution Utilities' Energy Operating Revenue	22.%

6

7 Staff then used Cash Flow from Operations (CFO) to Debt to calculate an
8 amount equal to 14.5 percent for FE, for the prior five years (2011-2015).
9 These calculations were based on information provided by Moody's
10 Investors Services (Moody's). The revenue needed was then allocated at
11 the 22 percent figure determined in the above table, resulting in an annual
12 average amount of \$131 million.

² See, SNL Financial Highlights (Attachment 1).

Cash From Operations to Debt	12/31/2011	12/31/2012	12/31/2013	12/31/2014	9/30/2015
CFO Pre W/C	\$3,025	\$2,856	\$2,858	\$2,718	\$3,362
Total Debt	\$21,556	\$22,972	\$24,381	\$26,723	\$27,118
CFO Pre W/C / Debt	14.00%	12.40%	11.70%	10.20%	12.40%
Allocation to OH D Utilities	22%	22%	22%	22%	22%
CFO Pre W/C / Debt at 14.5%	\$101	\$475	\$677	\$1,157	\$570
Ohio Regulated Distribution Utilities Proportion	\$22	\$104	\$149	\$255	\$125
Average Annual Revenue Needed	\$131				

2

3 7. Q. Why does Staff believe 14.5 percent CFO/Debt is the appropriate metric to
4 use to evaluate FE's credit worthiness?

5 A. On January 20, 2016, Moody's issued a credit opinion on FE stating that
6 certain factors could lead to a downgrade for FE. Specifically, "[a] nega-
7 tive rating action could also occur if a modified ESP does not allow FE to
8 maintain financial metrics adequate for its investment grade ratings, chiefly
9 a CFO pre-working capital to debt (CFO pre-WC/debt) of at least 14-15%.
10 Lower ratings may also result if a continued weakening of the merchant
11 markets causes financial ratios to fall below our benchmarks."³ Staff
12 believes it is appropriate to average the proposed CFO pre-WC/debt per-
13 centages resulting in a rate of 14.5 percent.

1 8. Q. Are you aware of other credit rating agencies commenting on FE's situa-
2 tion?

3 A. Yes, Standard and Poor's Financial Services LLC (S&P) issued a research
4 update on April 28, 2016, stating that, in general, FE's credit outlook will
5 improve, "[i]f the company's business risk profile materially improves by
6 reducing the size of its higher risk competitive business."⁴

7
8 9. Q. What is FE's current bond rating?

9 A. Currently, FE is rated Baa3 by Moody's and BBB- by S&P, which is the
10 final notch of investment grade rating for each credit rating agency.
11

12 10. Q. Why did Staff utilize this methodology?

13 A. Staff believes the long-term financial health of FE will have benefits for the
14 Ohio Regulated Distribution Utilities, as well as the State of Ohio in gen-
15 eral. However, Staff believes that the customers of the Ohio Regulated
16 Distribution Utilities should not be the only constituents providing credit
17 support for the entire FE Corporation.
18

⁴ See, Standard & Poor's rating services, Ratings Direct – Research Update, "FirstEnergy Corp. Outlook Revised to Negative from Stable on FERC Affiliate Waiver Recession," at 4 (Attachment 3).

Staff's belief that a shared contribution is important to ensure all parties, including FE employees, FE management, shareholders and others, are invested in supporting FE as an investment grade entity.

In response to Staff DR. #35, the Ohio Regulated Distribution Utilities stated that if FE falls below investment grade it would experience:

[REDACTED]

11. Q. Why is credit support necessary?

A. Most detailed financial transactions take time. Staff believes that credit support should be viewed as a bridge for FE to provide it time to implement a long term solution.

1 12. Q. Why does Staff recommend three years of credit support?

2 A. Staff believes three years is adequate time for FE to begin to address its
3 financial situation. Additionally, if FE has not improved its credit position
4 after three years, it could request an extension of the current plan for an
5 additional two years.
6

7 13. Q. Does Staff recommend any conditions on the Distribution Modernization
8 Rider?

9 A. Yes. Staff recommends that FE must keep its corporate headquarters and
10 nexus of operations in Akron, Ohio for the entire term of the electric
11 security plan (ESP) or the entire amount of the credit should be subject to
12 refund. Additionally, if FE or its subsidiaries were to undergo a change in
13 ownership, the Distribution Modernization Rider should end immediately
14 on the announcement of an impending change.
15
16

1 14. 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 Rehearing Testimony of Joseph P. Buckley, submitted on behalf of the Staff of the Public Utilities Commission of Ohio (confidential version), was served via electronic mail upon the following parties of record, this 29th day of June, 2016.

/s/ Thomas W. McNamee

Thomas W. McNamee
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Summary: Testimony Public Rehearing Testimony of Joseph P. Buckley (originally filed 6-29-2016) 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