

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.)	Case No. 17-32-EL-AIR
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.)	Case No. 17-33-EL-ATA
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.)	Case No. 17-34-EL-AAM
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Modify Rider PSR.)	Case No. 17-872-EL-RDR
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Amend Rider PSR.)	Case No. 17-873-EL-ATA
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.)	Case No. 17-874-EL-AAM
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service.)	Case No. 17-1263-EL-SSO
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Amend its Certified Supplier Tariff, P.U.C.O. No. 20.)	Case No. 17-1264-EL-ATA
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Defer Vegetation Management Costs.)	Case No. 17-1265-EL-AAM
)	

In the Matter of the Application of Duke)
Energy Ohio, Inc., to Establish) Case No. 16-1602-EL-ESS
Minimum Reliability Performance)
Standards Pursuant to Chapter 4901:1-)
10, Ohio Administrative Code.

PREFILED TESTIMONY IN RESPONSE TO OBJECTIONS TO THE STAFF
REPORT

OF

JOSEPH P. BUCKLEY
RATES AND ANALYSIS DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO

STAFF EXHIBIT____

July 2, 2018

1 **Name and Employer**

2
3 1. Q. Please state your name and business address.

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

6
7 2. Q. By whom are you employed and in what capacity?

8 A. I am employed by the Public Utilities Commission of Ohio (PUCO or
9 Commission).

10
11
12 **Academic Background and Professional Experience**

13
14 3. Q. Please briefly describe your educational and professional background.

15 A. I received a Bachelor of Science Degree in Economics from the Ohio State
16 University and a Master in Business Administration Degree from the
17 University of Dayton.

18
19 4. Q. Please describe your work experience and professional training.

20 A. I have been employed by the PUCO since 1987. Since that time I have
21 progressed through various positions and was promoted in 2000 to my
22 current position of Utility Specialist 3. In addition, I have worked on

1 several joint Federal Communications Commission (FCC) and NARUC
2 projects and audits, and served on the Midwest Independent System
3 Operator's (now Midcontinent System Operator, Inc.) Finance Committee
4 as Vice-Chairman and Chairman. Also, in 2011, I was awarded the
5 professional designation Certified Rate of Return Analyst (CRRRA) by the
6 Society of Utility and Regulatory Financial Analysts. This designation is
7 awarded based upon experience and successful completion of a written
8 examination.

9
10 In 2000, I earned the Certified in Financial Management (CFM)
11 designation, awarded by the Institute of Management Accountants. Also, I
12 attended The Annual Regulatory Studies Program sponsored by The
13 National Association of Regulatory Utility Commissioners (NARUC) and
14 The Training for Utility Management Analyst also sponsored by NARUC.

15
16 5. Q. Have you testified in previous cases at the PUCO?

17 A. Yes. I have testified in numerous cases before the PUCO.

18
19 **Purpose of Testimony**

20
21 6. Q. What is the purpose of your testimony?

1 A. I will address the objections related to the rate of return recommended by
2 the Staff of the PUCO (Staff), specifically, the Ohio Consumers' Counsel's
3 Objections 5-9.

4
5 7. Q. Please describe OCC's objections to the rate of return recommended by
6 Staff.

7 A. OCC argues that the Staff Report used an unduly high 4.45% risk-free
8 return in the Capital Asset Pricing Model (CAPM) analysis,¹ used an
9 unduly high 7% risk premium in its cost of common equity calculation,²
10 and inappropriately applied unequal weights to the CAPM and DCF
11 model.³

12 OCC also alleges that the Staff Report made improper adjustments for
13 equity issuance and other costs.⁴

14 Finally, OCC claims that the Staff Report's recommended rate of return and
15 return on equity are unreasonable because they far exceed the rate of return
16 and return on equity authorized for electric distribution utilities nationwide
17 that are similar to Duke.⁵

18

¹ See *In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Electric Distribution Rates*, Case No. 17-32-EL-AIR, et al., Objections to the Staff Report by OCC at 8 (Oct. 26, 2017) (*Duke Rate Case*).

² *Id.* at 9.

³ *Id.* at 9-10.

⁴ *Id.* at 10.

⁵ *Id.* at 10-11.

1
2 **Responses to the Objections**

3 7. Q. How does Staff respond to OCC's objections related to the return on equity
4 analysis?

5 A. Staff made adjustments to its traditional CAPM analysis to achieve an
6 appropriate risk premium that would result in a return on equity that is
7 more appropriate for setting long-term rates and keeps the Company
8 competitive for attracting investment. Staff believes there are many ways to
9 establish a reasonable rate of return and does not believe altering an
10 individual component is appropriate if it would create a return that is
11 outside a reasonable range. Here, the rate of return range proposed by Staff,
12 and accepted by the Company, is reasonable, making these objections
13 raised by OCC immaterial.⁶
14
15

16 8. Q. What are common stock issuance costs?

17 A. Issuance costs include expenditures made directly by the company issuing
18 stock, for the purpose of issuing stock and does not include flotation costs.
19 Some of these expenditures would be for filing with the SEC, accounting,
20 legal representation, printing, and exchange listing. Issuance costs also

⁶ See *Fed. Power Comm. v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) holding that the Court did not need to determine the many permissible ways to calculate the return if the end result is just and reasonable.

1 include the underwriting spread, which is not an expenditure for the issuing
2 company. Basically, the underwriting spread is the difference between the
3 proceeds to the company and the price paid by the primary purchasers of an
4 issue. Issuance costs are the difference between the amount paid by the
5 primary purchasers and the net proceeds, which is the amount available for
6 investment by the company.

7
8 9. Q. How does Staff respond to OCC's objection regarding issuance costs?

9 A. An adjustment for issuance cost is necessary. The cost of issuance is
10 properly spread over the life of the stock issue. As long as stock has been
11 issued, an equity adjustment is necessary. It does not matter what future
12 financing plans have been prepared. The investor requires a full return as
13 long as the investor owns the stock. The company issuing new equity
14 initially receives funds in the amount of the equity issued. The amount of
15 equity issued less the issuance cost is the amount available to the company
16 for investment, yet the investor is, as required, paid a return on the full
17 amount of investment. A greater return, therefore, must be earned on the
18 lesser amount that can be invested. This is made possible by the Staff's
19 adjustment to the baseline cost of equity.

20
21 10. Q. How does Staff respond to OCC's objection regarding the overall rate of
22 return and return on equity?

1 A. Staff believes that the ROE range proposed in the Staff Report is reasonable
2 because the average ROE nationwide over five years⁷ is 9.79%, well within
3 the range of reasonableness Staff recommended. In fact the mid-point of
4 the Staff recommendation is 9.73%.

5 Staff also believes that the rate of return range proposed in the Staff Report
6 is reasonable because the average rate of return nationwide during that
7 same five-year period is 7.39%. When a range of reasonableness is applied
8 to that average, the result is a rate of return range of 6.89% to 7.89%. The
9 Stipulation provides a rate of return of 7.54%, which falls within the range
10 of reasonableness that is based on the nationwide average.

11 Staff used a five-year average when comparing nationwide rates of return
12 because rate cases are not typically filed annually. Therefore, a five-year
13 average is more representative of a long-term rate of return, as is set in a
14 distribution rate case.

15
16 11. Q. Does this conclude your testimony?

17 A. Yes it does. However, I reserve the right to submit supplemental testimony
18 as new information subsequently becomes available.

⁷ The five-year period beginning January 1, 2013 and ending December 31, 2017.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the Pre-filed Testimony in Response to Objections to the Staff Report of Joseph P. Buckley has been served upon the below-named counsel via electronic mail, this 2nd day of July, 2018.

/s/ Steven L. Beeler

Steven L. Beeler

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Summary: Testimony Prefiled Testimony in Response to Objections to the Staff Report of Joseph P. Buckley electronically filed by Ms. Tonnetta Scott on behalf of PUC