

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of VEDO)
Energy Delivery of Ohio, Inc. for Approval) Case No. 18-0049-GA-ALT
of an Alternative Rate Plan.)

In the Matter of the Application of VEDO)
Energy Delivery of Ohio, Inc. for Approval) Case No. 18-0298-GA-AIR
of an Increase in Gas Rates.)

In the Matter of the Application of VEDO)
Energy Delivery of Ohio, Inc. for Approval) Case No. 18-0299-GA-ALT
of an Alternative Rate Plan.)

**DIRECT TESTIMONY
OF
MOHAMMAD HARUNUZZAMAN, Ph.D.**

**On Behalf of
The Office of the Ohio Consumers' Counsel**
*65 East State Street
Columbus, Ohio 43215-4213*

November 7, 2018

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ATTACHMENT

Attachment MH-1

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.***

4 ***A1.*** My name is Mohammad Harunuzzaman. My business address is 65 East State
5 Street, 7th Floor, Columbus, Ohio 43215. I am employed by the Office of the
6 Ohio Consumers' Counsel ("OCC") as a Principal Regulatory Analyst.

7

8 ***Q2. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATION AND***
9 ***PROFESSIONAL EXPERIENCE.***

10 ***A2.*** I earned a Doctorate in Nuclear Engineering from the Ohio State University in
11 1994. In the doctoral program, my fields of specialization were reliability and
12 safety of nuclear power plants, and cost optimization. I also have a bachelor's
13 degree in Physics from the University of Dhaka, Bangladesh.

14

15 My professional experience includes nearly 15 years of regulatory policy research
16 at the National Regulatory Research Institute ("NRRI"), The Ohio State
17 University, more than seven years in electric market analysis at Pepco Energy
18 Services ("PES"), an unregulated affiliate of Potomac Electric Power Company
19 ("PEPCO"), and one year in electric fuel price forecasting at the Florida Power
20 and Light Company ("FPL").

21

22 At the NRRI, I performed regulatory policy analysis, supported by engineering
23 and quantitative analysis, of issues that include cost-of-service and rate design,

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1 deregulation of the natural gas industry and retail gas choice programs, separation
2 of costs and services of regulated and unregulated parts of a utility company (to
3 prevent cross subsidization of the unregulated affiliate by the regulated utility),
4 incentive regulation as applied to energy efficiency and gas acquisition practices
5 of a local distribution company, and to renewables and advanced generation
6 technologies of an electric utility.

7

8 At FPL, I worked on the forecasting of energy fuel prices including coal, gas, and
9 oil. At PES, I performed computer modeling simulation and analysis of
10 wholesale regional electricity markets, including the PJM,¹ NYISO,² NEISO³ and
11 ERCOT,⁴ and forecasted electricity prices. At the same company, I also
12 performed analysis to support financial risk management operations of the
13 company.

14

15 Since March 2016, I have been employed as Principal Regulatory Analyst at the
16 OCC. At my current position, I am responsible for research, investigation, and
17 analysis of regulatory filings, participation in special projects, and assisting in
18 policy development and implementation. Also, I have been the assigned leader of

¹ Pennsylvania, Maryland and New Jersey Regional Transmission Operator.

² New York Independent System Operator.

³ New England Independent System Operator.

⁴ Electricity Reliability Council of Texas.

1 the OCC industry group for gas and have the responsibility for coordinating
2 analytical work for gas cases.

3

4 A list of my professional publications is included in Attachment MH-1.

5

6 ***Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED***
7 ***BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?***

8 ***A3.*** Yes, I testified on behalf of OCC in the Columbia IRP Case 16-2422-GA-ALT.

9

10 ***II. PURPOSE OF MY TESTIMONY***

11

12 ***Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
13 ***PROCEEDING?***

14 ***A4.*** The purpose of my testimony is to explain and support OCC's objections 1, 18,19,
15 20, 21, 22, and 23 to the Staff Report in the Vectren Energy Delivery of Ohio, Inc
16 ("VEDO") Rate Case (18-0298-GA-AIR) regarding the Capital Expenditure
17 Program ("CEP") Rider and Distribution Replacement Rider ("DRR").

III. OVERVIEW THE CAPITAL EXPENDITURE PROGRAM THAT VEDO'S CUSTOMERS PAY FOR

Q5. PLEASE PROVIDE AN OVERVIEW OF THE CAPITAL EXPENDITURE PROGRAM (“CEP”).

A5. House Bill 95 (“HB95”) and Ohio Revised Code 4929.111 allow a natural gas company to implement a CEP for any of the following:

- (1) Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program;
- (2) Any program to install, upgrade, or replace information technology systems;
- (3) Any program reasonably necessary to comply with any rules, regulations, or orders of the commission or other governmental entity having jurisdiction.

ORC 4929.111 also directs the PUCO to authorize a natural gas company to defer or recover both of the following.

- (1) A regulatory asset for the post-in-service carrying costs on that portion of the assets of the capital expenditure program that are placed in service but not reflected in rates as plant in service;

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1 (2) A regulatory asset for the incremental depreciation directly
2 attributable to the capital expenditure program and the property tax
3 expense directly attributable to the capital expenditure program.

4 Therefore, deferred expenses of a CEP can be treated as a regulatory asset
5 that can earn a return on and of this asset.

6 The CEP was established for VEDO by PUCO order in Case No. 12-530-GA-
7 UNC ("12-530 Order"). In the Order, the Commission approved accounting
8 authority, inclusive of the deferral of depreciation and property tax expense and
9 the accrual of post-in-service carrying cost ("PISCC"), on investments made
10 under the Utility's CEP for the period October 1, 2011 through December 31,
11 2012. In a subsequent case, Case No. 13-1890-GA-UNC ("13-1890 Order"), the
12 PUCO approved the continuation of the CEP investments and deferral beyond
13 December 31, 2012, up to the point when the deferral would reach the \$1.50 per
14 customer per month cap established in the 12-530 Order.

15
16 In the current Application, VEDO seeks to collect from customers in base rates
17 the regulatory assets approved for deferral in 12-530 and 13-1890 Orders.

18 Between 2011 and 2017, the total deferral was \$66 million.⁵ The underlying CEP
19 investments will also be collected in the current rate case. VEDO proposes to
20 collect its CEP deferrals beginning January 1, 2018 through December 31, 2023

⁵ Direct testimony of J. Cas Swiz (filed April 13, 2018) at 31.

1 in annual CEP riders. The rider will collect deferred depreciation, property tax,
2 and PISCC and the underlying assets will be excluded from the rider but will be
3 included in rate base and collected from customers as a result of the next base rate
4 case.⁶

5

6 **IV. OVERVIEW OF THE DISTRIBUTION REPLACEMENT RIDER THAT**
7 **VEDOVO CUSTOMERS PAY FOR**

8

9 ***Q6. PLEASE PROVIDE AN OVERVIEW OF THE DISTRIBUTION***
10 ***REPLACEMENT RIDER (“DRR”).***

11 ***A6.*** VEDO has a program for accelerated replacement of high-risk distribution bare
12 steel and cast iron (“BSCI”) mains and associated service lines, called the
13 Replacement Program. This program also includes other high-risk assets such as
14 field coated steel, vintage plastic, and obsolete equipment associated with the
15 BSCI mains. The Replacement Program also includes relocation of meters
16 outside of customer premises and the replacement of customer-owned services.⁷

17

18 The DRR was established in Case No. 07-1080-GA-AIR to collect from
19 consumers Replacement Program costs. The DRR was initially in effect for five
20 years and was extended for another five years to 2017 in Case No. 13-1571-GA-

⁶ VEDO’s CEP Application (filed April 13, 2018) at 4.

⁷ Direct Testimony of Sarah Vyvoda (filed April 13, 2018) at 3-4.

1 ALT (the “Extension Case”). In VEDO’s current application, it asks to extend the
2 Replacement Program to 2023 and seeks to collect associated costs in the DRR.⁸
3

4 **V. COMMENTS ON THE STAFF REPORT AND OCC**
5 **RECOMMENDATIONS**
6

7 ***Q7. WHAT WAS STAFF’S RECOMMENDATION ON THE REVIEW OF***
8 ***VEDO’S CEP? (Objections 1, 18, and 19)***

9 ***A7.*** VEDO proposed an annual Staff review of its CEP rider application to be filed on
10 April 1 of every year beginning in 2019. The review will involve an
11 investigation, over a two-month period, of VEDO’s CEP investments and
12 deferrals over the prior calendar year. Staff also recommends a minimum of four
13 months, instead of the two months proposed by VEDO, between when the Utility
14 files its application and Staff issues its investigative report.⁹ Besides the annual
15 audit, Staff also recommended a separate used and useful, necessity, and prudence
16 audit of CEP assets placed in service between the current rate case (i.e. beginning
17 in 2018) and the next rate case.
18

19 ***Q8. DO YOU SUPPORT STAFF’S RECOMMENDATIONS ABOVE?***

20 ***A8.*** Yes, I do.

⁸ *Id.* at 8.

⁹ Staff Report (filed October 1, 2018) (“Staff Report”) at 18

1 ***Q9. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS TO PROTECT***
2 ***RESIDENTIAL CUSTOMERS? (Objection 18)***

3 ***A9.*** Yes. I would add that a minimum of one month be allowed after the annual Staff
4 audit for OCC and other parties to review the audit and file comments. Further, I
5 recommend that the used and useful, necessity and prudence audit proposed by
6 Staff should be performed by an independent third-party, consistent with the
7 practices generally followed in PUCO-ordered audits.

8
9 ***Q10. DO YOU HAVE ANY OTHER RECOMMENDATIONS TO PROTECT***
10 ***RESIDENTIAL CUSTOMERS? (Objection 18)***

11 ***A10.*** Yes, I do. I recommend that there should be special emphasis on the “necessity”
12 part of the audit.

13
14 ***Q11. CAN YOU ELABORATE? (Objection 18)***

15 ***A11.*** Yes. I consider the necessity part of an audit the most important. The necessity
16 part of the audit should scrutinize whether the CEP investments and underlying
17 assets were needed for purposes of serving customers, maintaining the reliability
18 and safety of the system, and to meet other service obligations of a gas
19 distribution utility. Further, the necessity audit should determine whether the
20 *level* of investments was commensurate with the service obligations of VEDO.

21
22 For example, a gas utility needs to forecast the level of mains capacity that would
23 be needed to meet peak demand of all customers. Then, the utility needs to

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1 determine the least cost way to build that capacity, and other associated support
2 facilities and services. The utility can use these metrics, as well as other data, as
3 inputs to its capital budget forecasting, planning and implementation process. An
4 audit can track the process outlined above to evaluate the necessity of capital
5 expenditures.

6

7 ***Q12. DID THE PUCO STAFF RECOMMEND A USED AND USEFUL,***
8 ***PRUDENCE AND NECESSITY AUDIT FOR VEDO'S CEP INVESTMENTS***
9 ***BETWEEN 2011-2017? (Objection 19)***

10 ***A12.*** No, it did not. However, the PUCO Staff performed an audit of VEDO's
11 expenses between 2011 and 2017. The Staff audit consisted of an investigation of
12 test year operating income and date certain rate base and included a review of
13 VEDO's budgeting and forecasting techniques, verification of the operating
14 revenue computation, and an examination of VEDO's continuing property
15 records. In addition, Staff verified the existence and used and useful nature of the
16 assets through physical inspections. Staff performed other independent analyses it
17 considered necessary.

18

19 ***Q13. DO YOU RECOMMEND A USED AND USEFUL, PRUDENCE AND***
20 ***NECESSITY AUDIT FOR VEDO FOR THE ABOVE PERIOD TO PROTECT***
21 ***RESIDENTIAL CUSTOMERS?***

22 ***A13.*** Yes, I do.

1 ***Q14. WHAT ARE YOUR REASONS FOR RECOMMENDING THIS AUDIT?***

2 ***A14.*** VEDO is seeking to recover the CEP investments during 2011-2017 and
3 associated deferrals from customers in the current rate case. For these charges to
4 consumers to be considered just and reasonable, the underlying investments need
5 to be used and useful, prudent and necessary.
6

7 ***Q15. HAS VEDO CLAIMED THAT ITS REQUESTED CEP RIDER RATES ARE***
8 ***JUST AND REASONABLE?***

9 ***A15.*** Yes, it has. However, that claim should be verified through an independent
10 review.¹⁰
11

12 ***Q16. DO YOU HAVE THE SAME RECOMMENDATIONS FOR THE PROPOSED***
13 ***AUDIT OF 2011-2017 INVESTMENTS AS THE AUDIT OF POST 2017***
14 ***INVESTMENTS?***

15 ***A16.*** Yes, I do. I believe this audit also should have an emphasis on necessity.

¹⁰ VEDO CEP Application (filed April 13, 2018) at 14.

1 ***Q17. ONE EFFECTIVE WAY TO INSTITUTE COST CONTROLS, FOR THE***
2 ***PROTECTION OF CUSTOMERS, IS TO SET SPENDING REVENUE AND***
3 ***RATE CAPS. DOES STAFF RECOMMEND SUCH CAPS FOR VEDO'S***
4 ***CEP? (Objection 20)***

5 ***A17.*** Yes, it does. Staff asks VEDO to work with it to develop meaningful spending,
6 revenue and rate caps.

7

8 ***Q18. WHAT IS YOUR UNDERSTANDING OF THE WORD "MEANINGFUL" IN***
9 ***THE CONTEXT OF CAPPING THE UTILITY RATES THAT CUSTOMERS***
10 ***PAY?***

11 ***A18.*** My understanding of "meaningful" is that the caps are effective in controlling
12 customer charges. In other words, the caps provide reasonable upper limits to
13 costs that a utility can achieve if it is prudent in choosing investments and
14 efficient in minimizing costs. In contrast, a "meaningless" cap (i.e. a relatively
15 high cap) would be that which allows more latitude to the utility and does not
16 constraint its costs effectively so that the utility can still comply with the cap
17 without being prudent or efficient.

18

19 ***Q19. DO YOU HAVE ANY RECOMMENDATIONS ON STAFF'S SPENDING,***
20 ***REVENUE, AND RATE CAP PROPOSAL THAT WOULD PROTECT***
21 ***CUSTOMERS?***

22 ***A19.*** Yes, I do. I recommend that VEDO be asked to work with OCC, in addition to
23 Staff, to develop caps. As the advocate for residential consumers of Ohio, OCC

1 has a significant stake in ensuring just and reasonable rates for residential
2 consumers. Caps on spending, revenues, and rates are an effective way to limit
3 consumer charges to more reasonable levels, and OCC needs to be a part of any
4 collaborative process to establish caps and corresponding charges to customers.

5

6 ***Q20. DO YOU HAVE ANY RECOMMENDATION ON METHODOLOGIES TO***
7 ***DEVELOP CAPS THAT WOULD PROTECT CUSTOMERS?***

8 ***A20.*** Yes, I do. I recommend developing caps using parameters external to the utility
9 in combination with the utility's own estimates of demand and costs. Such
10 parameters could include the GDP growth rate, the inflation rate, and industry-
11 wide cost escalation rates for labor, construction installation of plant and
12 equipment. The GDP growth rate could be an indicator of the utility's demand
13 and sales growth, and industry-wide average cost escalation rates could be good
14 indicators of how construction and labor costs are likely to increase for a utility.
15 For use in developing caps, these exogenous parameters should be thoroughly
16 researched and vetted.

17

18 ***Q21. FOR THE PROTECTION OF CUSTOMERS, IS IT MORE APPROPRIATE***
19 ***TO USE THE UTILITY'S OWN FORECASTS RATHER THAN ANY***
20 ***NATIONAL OR INDUSTRY-WIDE INDEX FOR SETTING CAPS?***

21 ***A21.*** A utility's own forecast would be a good input in the cap development process.
22 However, an exclusive reliance on the utility's own forecasts can bias the results
23 in favor of higher rather than lower costs, to the detriment of consumers.

1 **Q22. SO, DO YOU THINK CAPS BASED ON A UTILITY'S OWN ESTIMATES**
2 **AND FORECASTS OF DEMAND AND COSTS WILL BE HIGHER (AND**
3 **REQUIRE CUSTOMERS TO PAY MORE) THAN WHAT WOULD**
4 **REFLECT AN EFFICIENT LEVEL OF INVESTMENTS AND COSTS?**

5 **A22.** Yes, and such caps can be so inordinately high as to render them “meaningless” in
6 the sense that the caps are very unlikely to ever be reached.

7

8 **Q23. WOULD YOU THEN AGREE THAT CAPS BASED ON EXOGENOUS**
9 **INDICES AND PARAMETERS PROMOTE EFFICIENT INVESTMENTS**
10 **AND EXPENDITURES, TO CUSTOMERS' BENEFIT?**

11 **A23.** Yes, I agree.

12

13 **Q24. ARE YOU OPPOSED TO USING ANY UTILITY-SPECIFIC DATA IN**
14 **DEVELOPING CAPS ON RATES CUSTOMERS PAY?**

15 **A24.** Not at all. I would recommend using a reasonable combination of a utility's own
16 costs and cost estimates and indices external to the utility in developing caps. It is
17 necessary to have significant input from a utility's operations and expenses into
18 the cap development process to realistically reflect the unique characteristics of a
19 utility. The use of thoroughly researched and vetted parameters external to the
20 utility is appropriate when they can act as efficient benchmarks against which the
21 utility is asked to compete.

1 **Q25. WHAT OTHER CEP ISSUES, IN ADDITION TO THOSE RELATED TO**
2 **CEP INVESTMENTS AND COST CONTROLS, DO YOU WANT TO**
3 **ADDRESS IN YOUR TESTIMONY?**

4 **A25.** I want to address the issues of (1) continual depreciation of retired plants and (2)
5 incremental revenue offset of CEP deferrals.
6

7 **Q26. DOES THE STAFF REPORT ADDRESS THE ISSUE OF THE UTILITY**
8 **CONTINUING TO BUILD DEPRECIATION CHARGES FOR ITS PLANTS**
9 **AND ASSETS THAT HAVE ALREADY BEEN RETIRED? (Objection 1)**

10 **A26.** Yes, it does. Staff recommends that VEDO create an offset so that tariffed rates
11 being established in this rate case reflect the recovery of an amount of
12 depreciation expense that will decline over time and therefore no longer include
13 the rate base upon which that depreciation expense was established. Many of the
14 assets that comprise the rate base as of the date certain of this case will be retired
15 and therefore the associated depreciation expense should also be declining. As the
16 depreciation expense of the plant additions are either being recovered through the
17 CEP Rider rate or being deferred on a going forward basis for future recovery,
18 there should be recognition that the depreciation expense embedded in current
19 base rates will be recovering plant that is no longer in service.
20

21 **Q27. DO YOU AGREE WITH THIS RECOMMENDATION?**

22 **A27.** Yes, I do. However, the Staff Report does not indicate whether it investigated
23 continual depreciation of retired plants by VEDO.

1 **Q28. What do you recommend?**

2 **A28.** I recommend that Staff investigate whether VEDO depreciated any plant after it
3 has been retired. If Staff finds that VEDO depreciated any plant after it has been
4 retired, customers' charges should be reduced in an amount equal to the
5 depreciation.
6

7 **Q29. DOES THE STAFF REPORT ADDRESS THE ISSUE OF INCREMENTAL**
8 **REVENUE OFFSETS TO VEDO'S CEP DEFERRALS, THUS REDUCING**
9 **THE RATES THAT VEDO'S CUSTOMERS PAY? (Objection 21)**

10 **A29.** No, it does not.
11

12 **Q30. CAN YOU ELABORATE ON THE ISSUE?**

13 **A30.** Yes. In its 12-530 Order, the PUCO opined that VEDO's calculation of deferred
14 regulatory assets (which include depreciation, property taxes, and associated
15 carrying costs) should be net of incremental revenues. Incremental revenues are
16 those that are earned above approved revenue requirements and are directly
17 attributable to CEP investments. Offsetting the costs with the revenues received
18 (above the revenue requirements) would benefit customers by reducing rates.
19

20 **Q31. IS THERE ANY OFFSET TO DEFERRED REGULATORY ASSETS IF**
21 **THERE IS ZERO INCREMENTAL REVENUE?**

22 **A31.** No. The way the CEP is currently set up, there is no offset if the incremental
23 revenue generated by the CEP investments are zero.

1 ***Q32. DO YOU RECOMMEND CHANGING THIS OFFSET MECHANISM TO***
2 ***PROTECT CUSTOMERS?***

3 ***A32.*** Yes. I recommend that VEDO establishes a minimum guaranteed incremental
4 revenue offset, which might be indexed to a combination of load growth forecasts,
5 the level of planned CEP investment expected to generate incremental revenues,
6 and other relevant factors each year.

7

8 ***Q33. WHAT IS YOUR REASONING BEHIND RECOMMENDING SUCH A***
9 ***MECHANISM FOR CREDITING INCREMENTAL REVENUES?***

10 ***A33.*** If we consider the reasons behind achieving incremental revenues, they are a
11 combination of factors that include growth in the number of customers and
12 increase in load or demand of existing customers. These incremental revenues
13 would be generated by CEP investments in assets built to serve this incremental
14 customer demand or growth. Therefore, the incremental demand is one of the
15 primary causes of incremental revenues. It is also one of the rationales for the
16 corresponding CEP investments. Accordingly, it would be reasonable to establish
17 a minimum guaranteed incremental revenue offset to CEP deferrals.

18

19 ***Q34. ARE THERE ANY CONSUMER PROTECTION BENEFITS TO YOUR***
20 ***RECOMMENDED OFFSET MECHANISM?***

21 ***A34.*** Yes. Such a minimum guaranteed incremental revenue offset will constrain
22 excessive investments and overly optimistic projections of growth. This proposed

1 minimum offset will provide some protection for consumers from potential
2 overcharges. Finally, this offset can penalize the utility for excessive investments.

3

4 ***Q35. DID THE STAFF REPORT HAVE ANY OTHER RECOMMENDATION***
5 ***REGARDING THE CEP THAT YOU WOULD LIKE TO COMMENT ON?***

6 ***(Objection 22)***

7 ***A35.*** Yes, it did. Staff recommended that the Utility initiate discussions with it
8 regarding the potential creation of a single rider that would include all capital
9 investments.¹¹

10

11 ***Q36. WHAT WAS THE STAFF'S RATIONALE FOR THIS***
12 ***RECOMMENDATION?***

13 ***A36.*** Staff contends that a single rider would streamline accounting, tracking, and
14 auditing for the Utility and Staff.¹²

15

¹¹ See Staff Report at 18.

¹² See *id.*

1 **Q37. DO YOU SUPPORT THIS RECOMMENDATION?**

2 **A37.** No, I do not.

3

4 **Q38. WHY NOT?**

5 **A38.** It is not clear that a merger of these two riders would streamline the accounting
6 and auditing of the two sets of investments and expenses. The two riders serve
7 clearly different purposes. The CEP is for growth and improvement to meet the
8 utility's obligation to serve. The DRR, and the underlying Replacement Program,
9 is for accelerated or proactive replacement of assets for promoting performance,
10 reliability, and safety. Further, while there are commonalities between the two
11 programs, there are also many differences. So, it is not obvious that any
12 economies of scope in accounting will not be offset by the differences in the
13 purposes of the two programs. For example, capital investments for necessary or
14 ordinary infrastructure expansion/replacement will still have to be separated from
15 capital investments for accelerated replacement, even if they belong in the same
16 family of account numbers. Finally, merging the two might also lead to errors
17 because of the overlap between the two programs, and such errors might be
18 detrimental to consumers.

1 **Q39. DOES STAFF RECOMMEND AN END DATE FOR THE COMBINED**
2 **RIDER?**

3 **A39.** Yes, it does. Staff recommends that the rider would be filed annually and would
4 conclude or sunset at the filing of the next rate case.¹³

5

6 **Q40. DO YOU AGREE WITH THIS LAST RECOMMENDATION?**

7 **A40.** Yes, I do.

8

9 **Q41. WHAT IS YOUR OVERALL RECOMMENDATION FOR THE**
10 **PROTECTION OF CONSUMERS?**

11 **A41.** I recommend that the two riders be kept separate and both be abolished at the
12 filing of the next rate case.

13

14 **Q42. DID YOU WANT TO ADDRESS ANY ISSUE IN VEDO'S APPLICATION**
15 **THAT THE STAFF REPORT DID NOT ADDRESS BUT IS IMPORTANT**
16 **FOR CONSUMERS? (Objection 23)**

17 **A42.** Yes, I do.

¹³ See *id.*

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1 ***Q43. CAN YOU DESCRIBE THE ISSUE?***

2 ***A43.*** VEDO proposes caps on the monthly DRR charge for residential customers as
3 shown below.¹⁴

4

Annual Period	Residential Rate Cap (per customer, per month)
September 1, 2019–August 31, 2020	\$2.50
September 1, 2020–August 31, 2021	\$5.00
September 1, 2021–August 31, 2022	\$7.50
September 1, 2022–August 31, 2023	\$10.00
September 1, 2023–August 31, 2024	\$12.00
September 1, 2024–August 31, 2025	\$13.75

5

6 VEDO then proposes that “during any of the six years of the DRR as proposed in
7 this proceeding, VEDO’s actual costs result in a DRR monthly charge to its
8 Residential customers that exceed the caps described above, VEDO may defer on
9 its books any costs that it is unable to include in the DRR because the applicable
10 Residential customer cap would otherwise be exceeded.”¹⁵ VEDO also proposes
11 to apply carrying charges to this deferred cost.¹⁶

12

¹⁴ VEDO Application at 7-8.

¹⁵ *Id.* at 8.

¹⁶ *Id.*

1 VEDO's proposed exception to the rate caps essentially negates the caps. The
2 purpose of a rate cap is to limit costs under the cap and, ultimately, charges to
3 consumers. Allowing VEDO to charge residential customers above the cap, by
4 deferring the excess (with carrying charges) for future collection from customers
5 not only defeats the purpose of the cap, it also rewards VEDO for exceeding the
6 cap.

7

8 ***Q44. DID THE STAFF REPORT ADDRESS THIS ISSUE?***

9 ***A44.*** No. The Staff Report agrees with the above rate caps through 2023 but does not
10 discuss VEDO's proposed exception.¹⁷

11

12 ***Q45. WHAT DO YOU RECOMMEND for the protection of customers?***

13 ***A45.*** I recommend that, to protect residential customers from an unjust and
14 unreasonable charges, VEDO's proposal allowing it VEDO to defer any excess
15 over the cap with carrying charges be denied.

16

17 **VI. CONCLUSIONS**

18

19 ***Q46. CAN YOU SUMMARIZE YOUR RECOMMENDATIONS?***

20 ***A46.*** Yes. Below is a summary of my recommendations.

¹⁷ Staff Report at 18-19.

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- For the protection of consumers, there should be a used and useful, necessity and prudence audit of CEP assets, to be performed by an independent auditor, between the current and the next rate case.
- There should be a used and useful, necessity and prudence audit of CEP investments between 2011 and 2017, to be performed by an independent auditor.
- VEDO should work with Staff and OCC to develop meaningful spending, revenue, and rate caps for CEP to limit increased charges to residential consumers.
- It should be investigated whether VEDO is continuing to depreciate plants and assets that have been retired.
- A minimum incremental operating revenue offset for the CEP deferred regulatory assets should be established.
- The CEP rider and the DRR should be abolished after the next rate case. All allowable CEP and DRR capital expenditures should be recovered in future rate cases.
- The PUCO Staff accepted DRR rate caps for the years 2018 – 2023 for residential customers proposed by VEDO. But Staff failed to address an exception in the VEDO proposal that essentially negates the rate caps. OCC recommends that the exception be denied.

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1 **Q47. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A47.** Yes. However, I reserve the right to incorporate new information that may
3 subsequently become available through outstanding discovery or otherwise.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing *Direct Testimony of Mohammad Harunuzzaman, Ph.D. on Behalf of the Office of the Ohio Consumers' Counsel* was served via electronic transmission to the persons listed below this 7th day of November 2018.

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Mohammad Harunuzzaman, Ph.D. List of Professional Publications

Papers on Nuclear Safety and Reliability

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Summary: Testimony Direct Testimony of Mohammad Harunuzzaman, Ph.D on Behalf of The Office of the Ohio Consumers' Counsel electronically filed by Ms. Jamie Williams on behalf of Michael, William Mr.