

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**TESTIMONY
OF
JOSEPH P. BUCKLEY
CAPITAL RECOVERY AND FINANCIAL ANALYSIS DIVISION
RATES AND ANALYSIS DEPARTMENT**

STAFF EXHIBIT NO. ____

January 22, 2019

1 **Name and Employer**

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

3 A. My name is Joseph P. Buckley, and my business address is 180 East Broad
4 Street, Columbus, Ohio 43215.

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

7 A. I am employed by the Public Utilities Commission of Ohio (PUCO or
8 Commission) as a Utilities Specialist III.

10 **Academic Background and Professional Experience**

11 3. Q. Please briefly describe your educational and professional background.

12 A. I received a Bachelor of Science Degree in Economics from the Ohio State
13 University and a Master in Business Administration Degree from the
14 University of Dayton.

16 4. Q. Please describe your work experience and professional training.

17 A. I have been employed by the PUCO since 1987. Since that time, I have
18 progressed through various positions and was promoted in 2000 to my
19 current position. In addition, I have worked on several joint Federal
20 Communications Commission (FCC) and National Association of
21 Regulatory Utility Commissioners (NARUC) projects and audits, and
22 served on the Midwest Independent System Operator's (now Midcontinent

1 System Operator, Inc.) Finance Committee as Vice-Chairman and
2 Chairman. Also, in 2011, I was awarded the professional designation
3 Certified Rate of Return Analyst (CRRRA) by the Society of Utility and
4 Regulatory Financial Analysts. This designation is awarded based upon
5 experience and successful completion of a written examination.

6
7 In 2000, I earned the Certified in Financial Management (CFM)
8 designation, awarded by the Institute of Management Accountants. Also, I
9 attended The Annual Regulatory Studies Program sponsored by NARUC
10 and The Training for Utility Management Analyst also sponsored by
11 NARUC.

12
13 5. Q. Have you testified in previous cases at the PUCO?

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

15
16 **Purpose of Testimony**

17 6. Q. What is the purpose of your testimony?

18 A. I will address the Objections filed by the Ohio Consumers' Counsel (OCC)
19 related to Staff's rate of return calculation filed in the Staff Report of
20 Investigation (Staff Report) in Case No. 18-298-GA-AIR.

1 7. Q. OCC's Objection 7 states that the PUCO Staff used an unreasonably high
2 risk-free interest rate of 4.66% in its CAPM analysis that will lead to
3 VEDO charging too much to customers. How does Staff respond?

4 A. Interest Rate policy has been a challenging issue to incorporate into the rate
5 of return calculation in recent years. The quantitative easing period has
6 recently been wrapped up, and a period of periodic increases has begun.
7 Staff attempted to capture this policy change of the Federal Reserve (The
8 Fed). Staff believes that this case using forecasted interest rates is
9 appropriate due to policy shift of the Fed.
10

11 8. Q. OCC's Objection 8 states that the PUCO Staff inappropriately increased the
12 rate of return and the cost of common equity by allowing an adjustment for
13 equity issuance and other costs, that will lead to VEDO charging too much
14 to customers. How does Staff respond?

15 A. No. Staff will explain further in the questions 9 and 10 below.
16

17 9. Q. What are common stock issuance costs?

18 A. Issuance costs include expenditures made directly by the company issuing
19 stock, for the purpose of issuing stock. Some of these expenditures would
20 be for filing with the SEC, accounting, legal representation, printing, and
21 exchange listing. Issuance costs also include the underwriting spread,
22 which is not an expenditure for the issuing company. Basically, the

underwriting spread is the difference between the proceeds to the company and the price paid by the primary purchasers of an issue. Issuance costs are the difference between the amount paid by the primary purchasers, and the net proceeds, which is the amount available for investment by the company.

10. Q. Why is an adjustment for issuance cost necessary?

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

11. Q. OCC's Objection 10 states that the PUCO Staff Report failed to make an adjustment for consumer protection to reduce the recommended return on common equity in recognition of the reduced risks that VEDO will face with respect to revenues and cost recovery if the PUCO continues to use (or even increases) the high fixed charge. The PUCO Staff Report did not

1 acknowledge that VEDO's rate design of a high fixed charge to customers
2 reduces its risk. And the PUCO Staff failed to make any corresponding
3 reductions to the rate of return to reflect these reduced risks and to result in
4 lower charges to customers.

5 A. While Staff agrees that different rate designs will change the risk profile of
6 a utility, it is just one factor in establishing the overall risk of an entity.
7 Staff does not believe that making additions and subtractions for each risk
8 component (e.g. adjustment for consumer protection) is a sound policy for
9 establishing rates of return. Instead, Staff relies on more established
10 factors, such as bond ratings and Value Line rankings, to assess the overall
11 riskiness of the firm.

12
13 11. Q. Doe this conclude your testimony?

14 A. Yes. It does. However, I reserve the right to submit supplemental testi-
15 mony as new information subsequently becomes available.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Testimony of Joseph P. Buckley** submitted on behalf of the Staff of the Public Utilities Commission of Ohio via electronic mail upon the following parties of record, this 22nd day of January, 2019.

/s/Werner L. Margard III

Werner L. Margard III

Assistant Attorney General

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Summary: Testimony of Joseph P. Buckley electronically filed by Ms. Tonnetta Scott on behalf of PUC