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BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus)
Southern Power Company for Approval) Case No. 99-1729-EL-ETP
of Electric Transition Plan and Application)
for Receipt of Transition Revenues.

In the Matter of the Application of)
Ohio Power Company for Approval of) Case No. 99-1730-EL-ETP
Electric Transition Plan and Application)
for Receipt of Transition Revenues.

TESTIMONY
OF
JOSEPH G. BOWSER
Appendix A - Unbundling

ON BEHALF OF
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DATE: May 23, 2000

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1 ***I. INTRODUCTION***

2

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

4 ***A1.*** My name is Joseph G. Bowser. My business address is 77 South High Street, 15th Floor,
5 Columbus, Ohio 43266-0550. I am employed by the Ohio Consumers' Counsel ("OCC"
6 or "Consumers' Counsel") as Director of Analytical Services.
7

8 ***Q2. WHAT ARE YOUR QUALIFICATIONS?***

9 ***A2.*** I graduated from Clarion State College, Clarion, Pennsylvania in 1976 with a Bachelor of
10 Science degree in Accounting. In 1988, I received a Master of Science degree in Finance
11 from Rensselaer Polytechnic Institute, Troy, New York. I have been a certified public
12 accountant since 1984.
13

14 ***Q3. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.***

15 ***A3.*** In 1977, I joined the Federal Power Commission [predecessor agency to the Federal
16 Energy Regulatory Commission ("FERC")] as a field auditor in the Division of Audits. I
17 was promoted to the position of supervising auditor in 1978. My primary duties involved
18 the supervision and performance of audits of gas and electric utilities in the eastern and
19 midwestern regions of the United States, for compliance with the FERC Uniform System
20 of Accounts. Attachment 1 lists the audits that I performed while employed by the
21 FERC.

1 I joined Northeast Utilities Service Company in Hartford, Connecticut as a senior
2 regulatory analyst in 1985. During my ten years there, I held various positions in the
3 Rate Case Preparation, Regulatory Planning, and Accounting departments of the
4 Company. I participated in the preparation of rate cases for several operating companies
5 in the states of Connecticut, Massachusetts, and New Hampshire as well as wholesale rate
6 cases filed with the FERC. I was the project leader on several of these cases. I also
7 served as the manager of a substantial numbers of special projects, including a corporate-
8 wide internal controls enhancement project, a Connecticut Commission-ordered
9 management audit of the company, and a review of service company cost allocations.

10

11 In August 1995, I joined the Ohio Consumers' Counsel. In my position as Analytical
12 Services Director, I am responsible for the supervision of the OCC Analytical Services
13 staff. I am also responsible for assisting in policy development, the identification and
14 resolution of issues relevant to OCC's mission, and for the performance and management
15 of accounting, financial and other analysis associated with utility rate filings and other
16 regulatory proceedings.

17

18 **Q4. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

19 **A4.** Yes. I am a member of the American Institute of Certified Public Accountants, the Ohio
20 Society of Certified Public Accountants, and the Pennsylvania Institute of Certified
21 Public Accountants. I also serve as OCC's representative to the National Association of
22 Regulatory Utility Commission's ("NARUC") Staff Subcommittee on Accounts, and as

1 representative on the Tax and Accounting Committee of the National Association of State
2 Utility Consumer Advocates ("NASUCA").
3

4 ***Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR***
5 ***TESTIMONY?***

6 ***A5.*** I have reviewed pertinent portions of Columbus Southern Power Company's ("CSP") and
7 Ohio Power Company's ("OPC") (together, "Companies") December 30, 1999
8 Applications, applicable testimony, supporting CSP and OPC work papers and schedules,
9 and responses to OCC and other intervenors' discovery requests. I have also reviewed
10 FERC Form 1 data and PUCO annual report data for several years, and the Staff Report
11 of Exceptions and Recommendations. I also reviewed the May 5, 2000 Stipulation and
12 Recommendation in these proceedings.
13

14 ***II. PURPOSE OF TESTIMONY***
15

16 ***Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE PROCEEDINGS?***

17 ***A6.*** My testimony concerns the Companies' treatment of the Ohio Gross Receipts Tax, which
18 was terminated by Am. Sub. Senate Bill 3 for electric utilities as of April 30, 2001. The
19 purpose of my testimony is two-fold. First, I disagree with the Companies' proposed
20 treatment within their transition plans of the termination of the Ohio Gross Receipts Tax.
21 Second, I make recommendations with regard to the appropriate treatment of the
22 termination of the Ohio Gross Receipts Tax. I recommend that the Companies unbundle

1 and eliminate the Ohio Gross Receipts Tax from current rates as of January 1, 2001. If
2 the tax is unbundled as I recommend, I further recommend that the Companies be
3 allowed an Ohio Gross Receipts Tax Rider to collect the tax from customers for four
4 months only, from January 1, 2001 until April 30, 2001.

5
6
7 **III. THE COMPANIES' PROPOSAL**

8
9 **Q7. WHAT HAVE CSP AND OPC PROPOSED IN THEIR APPLICATIONS**

10 **REGARDING THE OHIO GROSS RECEIPTS TAX?**

11 **A7.** Both CSP and OPC have maintained the Ohio Gross Receipts Tax in their unbundled
12 rates. To reflect the termination of the tax, the Companies propose tax credit riders of
13 4.87738% for CSP and 4.52665% for OPC. However, the Companies propose that these
14 credit riders be effective only as of May 1, 2002 and stay in effect no longer than
15 December 31, 2005. Thus, the Companies propose to continue to collect the tax from
16 customers until May 1, 2002 and to end the credit to eliminate the tax on January 1, 2006.

17
18 **Q8. DO YOU AGREE WITH CSP'S AND OPC'S PROPOSED TREATMENT OF THE**
19 **ELIMINATION OF THE GROSS RECEIPTS TAX?**

20 **A8.** No. I do not agree with the Companies' proposal to use credit riders only for the period
21 May 1, 2002 through December 21, 2005 to handle the elimination of the tax.

1 **Q9. WHY DO THE COMPANIES PROPOSE TO APPLY THE CREDIT RIDERS ONLY**
2 **AFTER APRIL 30, 2002 WHEN AM. SUB. S.B. 3 TERMINATED THE OHIO**
3 **GROSS RECEIPTS TAX AS OF APRIL 30, 2001?**

4 **A9.** CSP and OPC witness Forrester states in his testimony that collection of the Ohio Gross
5 Receipts Tax should be matched with the Companies' financial accounting for the tax.
6 For financial accounting purposes, the tax will continue to be amortized to expense over
7 the period May 1, 2001 through April 30, 2002.

8
9 **Q10. DO YOU AGREE WITH THE COMPANIES' ARGUMENT THAT THE TAX**
10 **SHOULD BE COLLECTED FROM CUSTOMERS THROUGH APRIL 30, 2002?**

11 **A10.** No. The collection of the Ohio Gross Receipts Tax from customers should cease on April
12 30, 2001, the date on which the tax terminates and the end of the final measurement year
13 for the tax. The Ohio Gross Receipts Tax should not continue to be collected from
14 customers through April 30, 2002 merely to coincide with the year in which the
15 Companies account for the expense on their books.

16
17 **Q11. WHAT IS THE FINAL MEASUREMENT YEAR FOR THE OHIO GROSS**
18 **RECEIPTS TAX?**

19 **A11.** The measurement year determines the amount of Ohio Gross Receipts Tax that will be
20 owed by the Companies. The final measurement year is May 1, 2000 through April 30,
21 2001. The revenues collected from the Companies' customers during this last

1 measurement year determine the final year's amount of Ohio Gross Receipts Tax that will
2 be owed by the Companies.

3
4 **Q12. WHEN DO THE COMPANIES PAY THE GROSS RECEIPTS TAX?**

5 **A12.** The Ohio Gross Receipts Tax is a prepaid tax relating to the privilege of doing business
6 in a subsequent year (the privilege year). The last privilege year for which the Gross
7 Receipts Tax will apply is May 1, 2001 through April 30, 2002. Advance payments for
8 the last year of the tax will be made on October 15, 2000, March 1, 2001, and June 1,
9 2001. By August 1, 2001, the Companies will file a statement with the Tax
10 Commissioner setting forth the estimated taxes for the final year. No later than the first
11 Monday of November 2001, the Tax Commissioner will assess the Gross Receipts Tax
12 by multiplying 4.75% times the gross receipts for business done in the measurement year.
13 In December 2001, the true up of the measurement year estimates and the actual tax
14 liability for the measurement year will occur. On Exhibit OCC-JGB-1 is an illustration of
15 the relationship of the measurement year to the privilege year, and the advance payments
16 of the tax.

17
18 **Q13. HOW DO THE COMPANIES ACCOUNT FOR THE GROSS RECEIPTS TAX?**

19 **A13.** The Companies recognize for accounting purposes the tax expense over the privilege
20 year, generally May 1st through April 30th of the year following advance payment. In
21 other words, the Companies' accounting for the tax is to record the gross receipts tax
22 expense over the 12-month privilege year of the tax.

1 **Q14. DOES THIS ACCOUNTING FOR THE TAX EXPENSE OVER THE PRIVILEGE**
2 **YEAR EXTENDING TO APRIL 30, 2002 MEAN THAT THE COMPANIES**
3 **SHOULD COLLECT THE TAX FROM CUSTOMERS THROUGH APRIL 30, 2002?**

4 **A14.** No. Recognizing the tax expense over the privilege year is for accounting purposes only.
5 The crucial point here is that the Companies' base rates have been set to provide for full
6 and immediate recovery of the Gross Receipts Tax at the same time that the revenues to
7 be taxed are collected from customers. For ratemaking purposes, the rates of the utilities
8 have been set with current payment of the Gross Receipts Tax embedded in the rates. As
9 a result, the tax is collected from ratepayers during the measurement year.

10

11 **Q15. DO THE COMPANIES' BASE RATES MATCH THE COLLECTION OF**
12 **REVENUES WITH THE TAX THAT IS OWED ON THOSE REVENUES?**

13 **A.15.** Yes. Base rates are established to match the collection of the Ohio Gross Receipts Tax
14 that would be owed by the utilities with the revenues from sales of electricity, which is
15 the basis for the tax liability. In other words, included in each dollar of revenues
16 collected from customers there is embedded recovery of Ohio Gross Receipts Tax on that
17 dollar.

18

19 **Q16. SO ARE YOU SAYING THAT THE COLLECTION FROM RATEPAYERS**
20 **THROUGH BASE RATES IN THE FINAL MEASUREMENT YEAR OF THE TAX**
21 **FULLY COMPENSATES THE UTILITY FOR ITS TAX LIABILITY FOR THE**
22 **FINAL YEAR OF THE GROSS RECEIPTS TAX?**

1 **A16.** Yes. The base rates are established with consideration of the revenues and collections in
2 the measurement year. The rates are designed to recover the Gross Receipts Tax on a
3 current basis as revenues are collected and recorded. The last measurement year of the
4 tax ends on April 30, 2001. The kWhs sold after April 30, 2001 are no longer subject to
5 the Gross Receipts Tax. Therefore, the tax collected from customers on the sale of kWhs
6 must also cease as of April 30, 2001.

7
8 **Q17. WILL THE COMPANIES EXPERIENCE ANY 'LOSS' OF REVENUES IF THEY**
9 **ARE NOT ALLOWED TO COLLECT THE GROSS RECEIPTS TAX FROM**
10 **RATEPAYERS THROUGH APRIL 30, 2002?**

11 **A17.** No. Any "loss" that the Companies allege is strictly related to the Companies' accounting
12 for the tax during the privilege year. The Companies will have already collected the tax
13 from customers in the measurement year. To continue the collection of the tax in rates
14 through April 30, 2002 (the privilege year) would collect the final year of the tax from
15 customers twice and result in an over-collection by the Companies.

16
17 **IV. RECOMMENDATIONS**

18
19 **Q18. WHAT DO YOU RECOMMEND WITH REGARD TO THE METHOD TO**
20 **ELIMINATE THE OHIO GROSS RECEIPTS TAX FROM CUSTOMERS' BILLS?**

1 **A18.** First, the tax should be removed from the unbundled rates that will become effective
2 January 1, 2001. Then, a tax rider should be used to collect the tax from customers for
3 the period January 1, 2001 through April 30, 2001 only.
4

5 **Q19. WHAT IS THE AMOUNT OF OHIO GROSS RECEIPTS TAX, WHICH SHOULD**
6 **BE ELIMINATED FROM THE UNBUNDLED RATES FOR EACH COMPANY?**

7 **A19.** The amount of Ohio Gross Receipts Tax embedded in CSP's current rates is \$39,484,000
8 and the amount for OPCO is \$48,912,000. These amounts should be eliminated from the
9 unbundled rates for each company. The amounts of embedded Ohio Gross Receipts Tax
10 appear on the Companies' witness Pyle's Exhibit No. MAP-2.

11
12 **Q20. WHAT SHOULD BE THE AMOUNT OF THE OHIO GROSS RECEIPTS TAX**
13 **RIDER THAT YOU PROPOSE FOR THE PERIOD JANUARY 1, 2001 THROUGH**
14 **APRIL 30, 2001?**

15 **A20.** The rider I would propose would be at the same rate as that calculated by CSP and
16 OPCO, except that it would be a charge for four months rather than a credit. That amount
17 would be a tax rider of 4.87738% for CSP and 4.52665% for OPCO. As with the
18 Companies' proposal, this would be applied to the charges under each company's rate
19 schedules.
20

21

1 **Q21. WHY SHOULD THE GROSS RECEIPTS TAX BE UNBUNDLED FROM**
2 **CURRENT RATES INSTEAD OF CREDITED TO CUSTOMERS THROUGH A**
3 **CREDIT RIDER AS THE COMPANIES HAVE PROPOSED?**

4 **A21.** It is easier and more efficient to unbundle the Gross Receipts Tax from current rates (as I
5 propose) than to leave the tax in current rates and credit the tax through a credit rider for
6 all the years that the current rates are in effect.

7
8 **Q22. IS THERE AN ALTERNATIVE METHOD THAT WOULD ACHIEVE THE SAME**
9 **OBJECTIVE THAT YOU PROPOSE?**

10 **A22.** Yes. The tax could remain in unbundled rates as proposed by the Companies. However,
11 the Gross Receipts Tax Credit Rider proposed by CSP and OPCO would have to become
12 effective May 1, 2001 rather than May 1, 2002. In addition, the language on the rider
13 stating "This Rider shall remain in effect until no longer than December 31, 2005" would
14 need to be eliminated.

15
16 **Q23. WHY WOULD THE DECEMBER 31, 2005 TERMINATION LANGUAGE NEED TO**
17 **BE ELIMINATED FROM THE CSP AND OPCO PROPOSED CREDIT RIDER?**

18 **A23.** If the unbundled rates were to continue beyond December 31, 2005 and included
19 recovery of the Ohio Gross Receipts Tax as proposed by the Companies, the Tax Credit
20 Rider would also need to be continued. Otherwise, ratepayers through their rates would
21 be providing the Companies recovery of a tax that is no longer in existence. The Tax

1 Credit Rider would need to be continued until each company's rates are reset by the
2 Commission and the Ohio Gross Receipts Tax is eliminated from the rates.

3

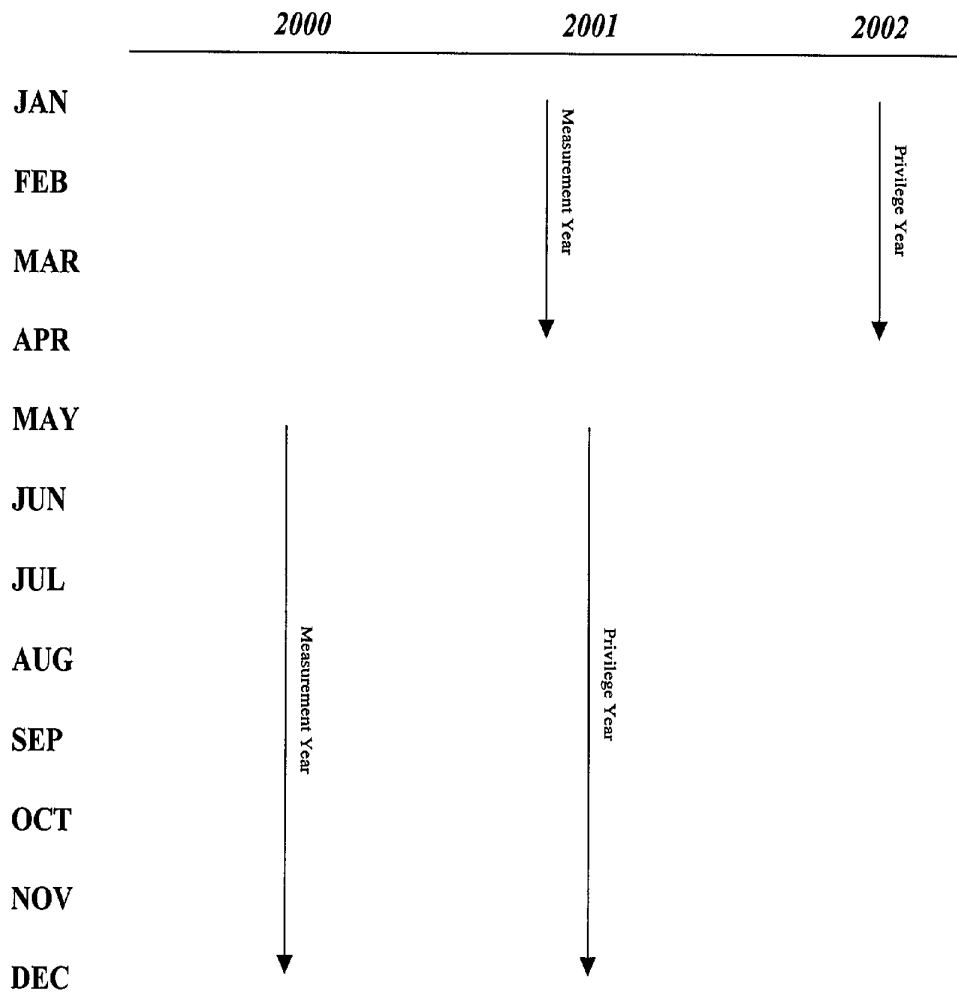
4 **Q24. DOES THIS COMPLETE YOUR TESTIMONY?**

5 **A24.** Yes. However, I do reserve the right to revise my testimony to incorporate new
6 information that may subsequently become available.

7

8

AEP
Ohio Gross Receipts Tax Illustration
Advance Payments/Measurement Year/Privilege Year
For Last Year of Tax (4/30/01)



- Advance payment #1 is made October 15, 2000
- Advance payment #2 is made March 1, 2001
- Advance payment #3 is made June 1, 2001
- True-up payment is made December 2001
- Measurement year is May 2000 to April 2001
- Privilege year is May 2001 to April 2002
- Collection from ratepayers takes place during measurement year

ATTACHMENT 1

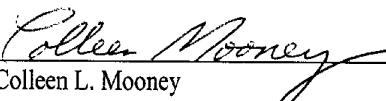
FERC AUDITS PERFORMED

Joseph G. Bowser

COMPANY	LOCATION
Duke Power Company	Charlotte, NC
Niagara Mohawk Power Corporation	Syracuse, NY
Public Service Electric & Gas	Newark, NJ
Cincinnati Gas & Electric Company	Cincinnati, OH
Pennsylvania Power Company	New Castle, PA
Connecticut Yankee Atomic Power Company	Hartford, CT
Western Massachusetts Electric Company	Hartford, CT
Connecticut Light and Power Company	Hartford, CT
Northeast Utilities Service Company	Hartford, CT
GPU Service Company	Parsippany, NJ
Pennsylvania Electric Company	Johnstown, PA
Metropolitan Edison	Reading, PA
Jersey Central Power & Light Company	Morristown, NJ
Pennsylvania Power & Light	Allentown, PA
Buckeye Pipeline Company	Emmaus, PA
Alcoa Generating Companies	Pittsburgh, PA
Rochester Gas & Electric Corporation	Rochester, NY
Equitable Gas Company	Pittsburgh, PA
Duquesne Light Company	Pittsburgh, PA
Central Illinois Public Service Company	Springfield, IL

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Testimony of Joseph G. Bowser on behalf of the Ohio Consumers' Counsel, has been served, by First Class, postage prepaid, mail, or by electronic mail, to the parties of record listed below this 23rd day of May 2001.


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