**Before**

**The Public Utilities Commission of Ohio**

In the Matter of the Application of )

Columbus Southern Power Company )

and Ohio Power Company for Authority )

to Recover Costs Associated with the ) Case No. 05-376-EL-UNC

Ultimate Construction and Operation )

of an Integrated Gasification Combined )

Cycle Electric Generating Facility )

**Direct Testimony of Joseph G. Bowser**

**on Behalf of Industrial Energy Users-Ohio**

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**CERTIFICATE OF SERVICE**

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**Direct Testimony of Joseph G. Bowser**

**on Behalf of Industrial Energy Users-Ohio**

1. **Introduction**

**Q1. Please state your name and business address**.

A1. My name is Joseph G. Bowser, 21 East State Street, 17th Floor, Columbus, Ohio 43215.

Q2. By whom are you employed and in what position?

A2. I am a Technical Specialist for McNees Wallace & Nurick LLC (“McNees”), providing testimony on behalf of the Industrial Energy Users-Ohio (“IEU-Ohio”).

Q3. Please describe your educational background.

A3. In 1976, I graduated from Clarion State College with a Bachelor of Science degree in Accounting. In 1988, I graduated from Rensselaer Polytechnic Institute with a Master of Science degree in Finance.

Q4. Please describe your professional experience.

A4. I have been employed by McNees since 2005, where I focus on assisting IEU‑Ohio members address issues that affect the price and availability of utility services. As part of my responsibilities, I provide IEU-Ohio members assistance as they evaluate and act upon opportunities to secure value for their demand response and other capabilities in the base residual auction (“BRA”) and incremental auctions conducted by PJM Interconnection, L.L.C. (“PJM”) as part of the PJM Reliability Pricing Model (“RPM”). Prior to joining McNees, I worked with the Office of the Ohio Consumers’ Counsel (“OCC”) as Director of Analytical Services. There I managed the analysis of financial, accounting, and ratemaking issues associated with utility regulatory filings. I also spent ten years at Northeast Utilities, where I held positions in the Regulatory Planning and Accounting Departments, provided litigation support in regulatory hearings, and assisted in the preparation of the financial/technical documents filed with state and federal regulatory commissions. I began my career with the Federal Energy Regulatory Commission (“FERC”), where I led and conducted audits of gas and electric utilities in the Eastern and Midwestern regions of the United States.

Q5. Have you previously submitted expert testimony before the Public Utilities Commission of Ohio (“Commission” or “PUCO”)?

A5. Yes. Since 1996, I have submitted testimony as an expert on numerous issues and how those issues should be resolved for purposes of establishing rates and charges of public utilities. A listing of cases in which I have submitted expert testimony is attached as Exhibit JGB-1.

Q6. What did you review for purposes of preparing your testimony?

A6. I reviewed the pre-filed testimony submitted by AEP-Ohio (“Company”) in May 2005 and on October 23, 2014, responses to discovery, and entries issued by the Commission in this proceeding.

My recommendations also reflect the knowledge I have accumulated throughout my career.

Q7. Have you summarized your recommendations?

A7. Yes. I recommend that the Commission direct AEP-Ohio to refund to customers all of the revenue collected through Phase I charges by Columbus Southern Power (“CSP”) and Ohio Power (“OP”), with carrying charges. The refund amount before carrying charges is $24.24 million. I have calculated that the refund with carrying charges based upon the weighted average cost of capital (“WACC”) proposed by Company witness Nelson in his pre-filed testimony of May 5, 2005 in this proceeding would be $48.833 million, as indicated on Exhibit JGB-2. If the Commission does not agree that the carrying charges should be based on the WACC, I recommend another option for the Commission to consider which would be more equitable than the customer deposit rate proposed by the Company. My alternative proposal is that the carrying charges be based on the Company’s cost of long-term debt, as this is the carrying charge rate that currently applies to AEP-Ohio’s under/over-recoveries in, for example, the Company’s Transmission Cost Recovery Rider (“TCRR”). As an alternative to a refund, the Commission should also consider crediting the refund amount against the Company’s phase-in deferral or capacity deferral.

**ii. Customer Refunds**

Q8. What has AEP-Ohio proposed in this case with respect to refunds to customers?

A8. The Company is proposing to refund to customers, by way of a one-month credit, the revenue collected through the Phase I riders that exceeds the $20.570 million in claimed integrated gasification combined cycle (“IGCC”) expenditures, plus carrying charges at the then-prevailing interest rate on customer deposits. The interest rate on customer deposits was 5.00% for CSP and 5.25% for OP through December 31, 2011, and 3.00% for both CSP and OP beginning January 1, 2012. The refund proposed by the Company would be made in January 2015; therefore, carrying charges would be accrued through December 31, 2014. The Phase I IGCC riders were in effect from July 2006 through June 2007. The Company has proposed that the amount to be refunded to customers is $3,669,926.30, plus carrying charges of $1,071,669.21, for a total refund of $4,741,595.51.

Q9. What is IEU-Ohio’s position with respect to the refund?

A9.As indicated in IEU-Ohio’s September 5, 2014 Initial Comments and September 19, 2014 Reply Comments submitted in this proceeding, the entire $24.24 million collected through the Phase I IGCC riders should be refunded to customers, with carrying charges at the WACC rate.

Q10. Why did you propose using a WACC rate to calculate the carrying charges for the refund?

A10. It is my understanding that the Commission has typically applied symmetrical carrying charges to under/over-recoveries. For example, in AEP‑Ohio’s 2009 fuel adjustment clause (“FAC”) proceeding,[[1]](#footnote-1) the Commission ordered that carrying charges on amounts to be refunded to customers be applied at a WACC rate because AEP-Ohio had been deferring related amounts with the carrying charges calculated at a WACC rate. Thus, there was symmetry between carrying charges applied in the Company’s favor and when applied in customers’ favor.

Q11. Are you aware of other cases where the Commission has applied symmetrical treatment to over/under-recoveries?

A11. Yes, for example, the Commission has applied symmetrical treatment on under/over-recoveries in the Company’s TCRR.

Q12. What carrying charge did AEP-Ohio propose in this proceeding?

A12.The Company requested a WACC rate of 12.78% for CSP and 12.73% for OP.

Q13. What carrying charge rate do you propose for the refund in this case?

A13.In conformity with the symmetry standard endorsed by the Commission, I propose that the Commission apply carrying charges at the same carrying charge rate proposed by the Company, 12.78% for CSP and 12.73% for OP.

Q14. If the Commission does not adopt your recommended WACC rate, do you have an alternative recommended carrying charge rate?

A14.Yes. In the Company’s first electric security plan (“ESP”) case, the Commission rejected a similar proposal by the Company to use the customer deposit rate to calculate carrying charges.[[2]](#footnote-2) Instead, the Commission directed AEP-Ohio to refund the amounts owed to customers at AEP-Ohio’s long-term debt rate. For other riders, the Commission has also applied a long-term debt rate to over/under-recovery balances. Therefore, if the Commission rejects the WACC rate, I would recommend the carrying charges be calculated at a long-term debt rate. In witness Nelson’s pre-filed testimony in this proceeding, the cost of long-term debt at the time of the Company’s application was 6.5% for CSP and 6.4% for OP.

Q15. Are there any other alternatives the Commission could consider for returning the IGCC collections and carrying charges to customers?

A15. Yes. As an alternative to a refund, the Commission could consider a credit of the IGCC rider collections to the phase-in deferral that originated in the Company’s first ESP proceeding, or to the capacity deferral authorized by the Commission in Case No. 10-2929-EL-UNC. Under this option, the entire IGCC collection amount, with carrying charges, could be credited to these deferrals. Under this approach, by assuming the IGCC collections were like a regulatory liability applied to the front end of the deferral, carrying charges would accrue on that balance and, along with the IGCC collections, would therefore reduce the amounts to be recovered from customers for the deferrals.

Q16. Is there anything else that you would like to address?

A16. Yes. Witness Spitznogle indicates at page 17 of his pre-filed testimony that the Phase I costs approved for recovery were not construction costs. He further states that it was known and understood that these costs would be incurred, regardless of whether any construction work was undertaken or whether the proposed IGCC plant was used and useful in providing service to customers. From this statement, he offers that the costs incurred were current expenses. As a factual matter, the Company initially accounted for some portion of the costs as Construction Work In Progress (“CWIP”). As the Company reported in the CSP and OP 2005 Form 1 reports filed with the FERC, there were project costs for the IGCC that were classified as Generation – Construction Work In Progress (CWIP - Account 107). See Exhibit JGB-3. Therefore, there were IGCC costs that were classified to CWIP for at least some period of time. However, I would also note that the accounting for these costs as CWIP does not appear to be correct under the FERC Uniform System of Accounts.

Q17. What is the proper accounting for the types of costs included in the Phase I costs?

A17. The FERC Uniform System of Accounts prescribes that Phase I type costs be recorded in Account 183 – Preliminary Survey and Investigation Charges, which provides that “[t]his account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be made to account 426.5, Other Deductions, or to the appropriate operating expense account.”[[3]](#footnote-3)

Therefore, one would not have expected for the Company to record any expenditures to CWIP for the project as construction never resulted.

**Iii. RECOMMENDATION**

Q18. What is your recommendation?

A18. I recommend that the Commission require that AEP-Ohio refund all of the IGCC rider revenue collected through the IGCC riders of CSP and OP to customers, with carrying charges. The refund amount before carrying charges would be $24.24 million. I have calculated that the refund with carrying charges at WACC, proposed by Company witness Nelson in his pre-filed testimony of May 5, 2005, would be $48.833 million. I used the monthly IGCC rider billings provided in response to Interrogatory IEU-INT-3-1, Attachment 1 (Exhibit JGB-4). My calculations are summarized on Exhibit JGB-2.

If the Commission does not agree that the carrying charges should be based on WACC, then I recommend that another option for the Commission to consider, which would be more equitable than the customer deposit rate, would be that the carrying charges be based on the Company’s cost of long-term debt, as this is the carrying charge rate applied to AEP-Ohio’s under/over-recoveries in, for example, the Company’s TCRR.

As an alternative to a refund, the Commission could choose to credit the IGCC rider collections to the Company’s outstanding phase-in deferral or capacity deferral.

Q19. Does this conclude your prepared direct testimony?

A19. Yes. However, I reserve the right to update this testimony for any outstanding discovery responses or additional information that is submitted by other parties in this case.

**EXHIBIT JGB-1**

**Page 1 of 2**

**Cases in Which Joseph G. Bowser Has Submitted Testimony**

*In the Matter of the Application of The East Ohio Gas Company for Authority to Implement Two New Transportation Services, for Approval of a New Pooling Agreement, and for Approval of a Revised Transportation Migration Rider*, Case No. 96‑1019‑GA‑ATA.

*In the Matter of the Applications of Columbus Southern Power Company and Ohio Power Company for Approval of Their Electric Transition Plans and for Receipt of Transition Revenues*, Case Nos. 99-1729-EL-ETP, *et al*.

*In the Matter of the Commission's Investigation Into the Policies and Procedures of Ohio Power Company, Columbus Southern Power Company, The Cleveland Electric Illuminating Company, Ohio Edison Company, The Toledo Edison Company and Monongahela Power Company Regarding the Installation of New Line Extensions*, Case Nos. 01-2708-EL-COI, *et al*.

*In the Matter of the Application of Columbus Southern Power Company to Adjust its Power Acquisition Rider Pursuant to Its Post-Market Development Period Rate Stabilization Plan*, Case No. 07-333-EL-UNC.

*In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals*, Case Nos. 07-551-EL-AIR, *et al*.

*In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan, and the Sale or Transfer of Certain Generating Assets*, Case Nos. 08-917-EL-SSO, *et al.,* including the remand phase of this proceeding.

*In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 08-935-EL-SSO*.*

*In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan,* Case Nos. 08-1094-EL-SSO*, et al.*

*In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company*, Case No. 10-2929-EL-UNC.

**Exhibit JGB-1**

**Page 2 of 2**

*In the Matter of the Application of Columbus* *Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO, *et al.*

*In the Matter of the Application of Akron Thermal, Limited Partnership for an Emergency Increase in its Rates And Charges for Steam and Hot Water Service*, Case Nos. 09‑453‑HT‑AEM, *et al.*

*In the Matter of the Application of The Dayton Power and Light Company to Establish a Standard Service Offer in the Form of an Electric Security Plan*, Case Nos. 12‑426‑EL‑SSO, *et al*.

*In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company and Related Matters for 2010*, Case Nos. 10-268-EL-FAC, *et al.*

*In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Revised Code, in the Form of an Electric Security Plan, Case Nos. 13-2385-EL-SSO, et al.*

**EXHIBIT JGB-2**

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**[Exhibit contained in pdf version of testimony]**

**EXHIBIT JGB-3**

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**[Exhibit contained in pdf version of testimony]**

**EXHIBIT JGB-4**

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**[Exhibit contained in pdf version of testimony]**

Certificate of Service

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Direct Testimony of Joseph G. Bowser on Behalf of Industrial Energy Users-Ohio* was sent by, or on behalf of, the undersigned counsel for IEU-Ohio to the following parties of record this 6th day of November 2014, *via* electronic transmission.

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1. See *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company*, Case Nos. 09-872-EL-FAC, *et al.*, Entry on Rehearing at 9 (April 11, 2012). [↑](#footnote-ref-1)
2. *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets*, Case Nos. 08‑917‑EL‑SSO, *et al.*, Order on Remand at 34 (October 3, 2011). [↑](#footnote-ref-2)
3. 18 CFR § 183. [↑](#footnote-ref-3)