

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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PUCO

In the Matter of the Application of : Case Nos. 11-346-EL-SSO
Columbus Southern Power Company and : 11-348-EL-SSO
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. :

In the Matter of the Application of :
Columbus Southern Power Company and : Case Nos. 11-349-EL-AAM
Ohio Power Company for Approval of : 11-350-EL-AAM
Certain Accounting Authority. :

PREFILED TESTIMONY
OF
DORIS MCCARTER
ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO
UTILITIES DEPARTMENT
CAPITAL RECOVERY & FINANCIAL ANALYSIS DIVISION

STAFF EX. ____

August 4, 2011

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

A. My name is Doris McCarter. My business address is 180 East Broad Street, Columbus, Ohio 43215.

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

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

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

A. I received a Masters in Public Administration from Columbia University. I have been employed by the PUCO since December, 1989 in various capacities; Commissioner Aide to Commissioner Richard M. Fanelly, Utility Specialist 2 in the Telecommunications Division of the Utilities Department, and Deputy Director of the Service Monitoring and Enforcement Department.

4. Q. Please describe your responsibilities.

A. I am Chief of the Capital Recovery and Financial Analysis Division within the Utilities Department. My duties include establishing policies, practices, and procedures for the Division's regulatory analysts who conduct audits and investigations of public utility companies subject to the jurisdiction of the PUCO. I have overall responsibility for certain aspects of the Staff's revenue requirement determination during rate setting investigations. The

1 calculation of depreciation expense, accumulated depreciation reserve and
2 cost of capital are under my purview. I also have overall responsibility for
3 management and operations reviews, corporate separation compliance,
4 financing approvals, and the administration of the significantly excessive
5 earnings test for electric distribution companies.
6

7 5. Q. What is the purpose of your testimony in this proceeding?

8 A. The purpose of my testimony is to address the Companies' proposed
9 Distribution Investment Rider (DIR).
10

11 6. Q. Will you summarize your position?

12 A. Staff recommends that the Commission not adopt the Companies' proposed
13 DIR.
14

15 7. Q. Why do you recommend the commission not adopt the Companies'
16 proposed DIR?

17 A. The Companies have not demonstrated a need for a DIR. At this time, the
18 Companies have not developed a specific analysis of what assets they
19 would replace, nor a concrete methodology to target the asset
20 improvements/replacements cited as a major factor in the need for a DIR.
21 There are only two specific capital investments identified by the
22 Companies; gridSMART Phase II and the replacement of the current

1 mobile communications system. In addition, the Companies have not
2 indicated any expected quantifiable tangible improvement to reliability
3 performance as measured by customer outages or power quality indices.
4

5 8 Q. Should the Commission approve a DIR for the Companies, are there
6 modifications the Commission should make to the proposed DIR?

7 A. Yes. I would recommend several modifications.
8

9 9. Q. Should the Commission approve a DIR, do you concur with the
10 Companies' proposal that only accounts 360 through 374 be included in the
11 DIR mechanism?

12 A. Yes. I concur that the Plant In Service (PIS) for accounts 360-374, less
13 accumulated depreciation, is the appropriate foundation for the capital costs
14 to be included for recovery. These costs would only be recovered from
15 customers once they have been approved by the Commission. Due to the
16 complexity of the review associated with the quarterly filings, the three
17 quarterly filings should be rate adjustment filings only. The annual filing
18 would also include a review to confirm that the amounts for which recovery
19 is sought are not unreasonable. Staff believes the review should be
20 conducted by an independent auditor, funded by the Companies, but chosen
21 and by Staff and under Staff's direction. Should the Commission determine

1 that a capital DIR mechanism is appropriate for AEP, capital costs
2 recovered by other riders should be excluded from the DIR mechanism.

3
4 10. Q. Should the Commission grant the Companies' a DIR, do you concur with
5 the proposal to include an operations and maintenance (O&M) adder in the
6 DIR?

7 A. No, I do not. I believe the DIR should only recover PIS costs reflected in
8 Accounts 360 through 374, less accumulated depreciation. PIS expenses
9 (which include capitalized labor) are associated with tangible plant and are
10 more easily audited. Given the nature of the DIR review, the ability to
11 meaningfully, and quickly, audit the Companies's expenses is critical. Due
12 to the nature of the O&M adder, such an audit of these specific O&M
13 expenses would not be possible on a quarterly basis. Setting aside the
14 ability to meaningfully audit both O&M and capital costs on a quarterly
15 basis, there are non-procedural reasons I would not recommend the O&M
16 adder be approved. The Companies have not quantified the amount of
17 O&M expenses that are associated with capital projects. In addition, O&M
18 expenses are largely associated with routine maintenance programs, and the
19 Companies have not provided a tangible, quantified enhancement or
20 acceleration of those programs. The Companies also indicate that the
21 O&M expenses associated with new equipment may actually be less than

1 the O&M expenses related to current equipment. For these reasons, I do
2 not believe that it is appropriate to include the O&M adder in the DIR.

3
4 11. Q. Do you have a recommendation with respect to the recovery of
5 gridSMART costs in the DIR should the Commission approve a DIR for
6 the Companies?

7 A. Based on the testimony of Staff Witness Scheck, I do not recommend the
8 inclusion of any gridSMART expenses in the DIR.

9
10 12. Q. Should the Commission approve a DIR for the Companies, on what basis
11 should the baseline be established for costs to be eligible for recovery in the
12 DIR?

13 A. The PIS level approved by the Commission in Case No. 11-351-EL-AIR
14 and 11-352-EL-AIR, less accumulated depreciation, should be used as the
15 threshold cost level. Doing so permits all parties to have comfort that the
16 starting amounts included in the DIR have been thoroughly examined and
17 approved by the Commission.

18
19 13. Q. Do you concur with the use of an interim DIR PIS threshold should the
20 Commission not have rendered a decision in 11-351-EL-AIR and 11-352-
21 EL-AIR prior to a decision in this case, should the Commission approve a
22 DIR for the Companies?

1 A. No, I do not. Staff recommends that the Commission not use Case No. 05-
2 843-EL-ATA as the DIR interim baseline until a decision is rendered in this
3 case. Columbus Southern Power and Ohio Power have not had a rate case
4 in many years. It is Staff's position that a potentially brief delay in the start
5 of the proposed DIR is not a compelling reason to engage in unnecessary
6 reconciliation filings for what is a short-term concern. Therefore, Staff
7 recommends that whatever PIS expenses are approved by the Commission
8 in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR be used as the baseline
9 expenditure level at the commencement of the DIR.

10
11 14. Q. What is your position regarding the carrying charges the Companies' have
12 proposed be used in the DIR recovery calculation?

13 A. Staff Witness Retterer is addressing the appropriate calculation and
14 application of the carrying charges.

15
16 15. Q. Do you believe there should be a cap on the amount of the DIR, should the
17 Commission approve a DIR?

18 A. Yes, I do. While the Companies have not provided criteria for what assets
19 would be replaced, or a specific plan for how it will develop a set of
20 concrete criteria to select assets for replacement, they have provided a
21 forecasted capital budget through 2013. I recommend that, should the
22 Commission believe a DIR is appropriate for the Companies, the forecast

1 provided, less gridSMART Phase II costs and adjusted for the carrying cost
2 calculation of Staff Witness Retterer, be used as the annual revenue
3 requirement ceiling for the DIR.
4

5 16. Q. Do you have a recommendation as to when the DIR rate expires should the
6 Commission approve a DIR?

7 A. Yes, I do. Staff recommends that the DIR recovery mechanism and
8 associated rate(s) sunset with the end of the ESP. After that time, should
9 the Companies wish to recover any of the incremental PIS incurred since
10 the inception of the ESP, they could file a rate case to recover the
11 incremental PIS unless a subsequent ESP has been approved by the
12 Commission which continues the DIR recovery mechanism for the incurred
13 incremental PIS. In addition, due to the timing of the quarterly filings and
14 quarterly update process, no additional costs should be included in the DIR
15 after December 31, 2013. To permit incremental PIS to flow to the DIR
16 after this point would create a situation where the last quarterly update
17 review (for incremental PIS incurred from January to March 2014) would
18 not commence before May 31, 2014.
19

20 17. Q. What is your position regarding the recovery of the DIR as a percentage of
21 the base distribution rate should the Commission approve a DIR?

1 A. It is my understanding that this recovery basis for the DIR is in
2 conformance with Staff's general preference that recovery of costs used to
3 benefit all customers should be recovered from all customers. As all
4 customers are served by the distribution network, all customers should
5 contribute to the recovery of the costs associated with maintaining the
6 distribution infrastructure.

7
8 18. Q. If approved, should the DIR be nonbypassable?

9 A. Yes.

10
11 19. Q. Do you have a recommendation regarding the Companies' proposal to have
12 one percentage for both OP and CSP?

13 A. Yes, I do. Should the Commission find that a DIR mechanism is
14 appropriate, I recommend that one of two things occur. Either have
15 separate DIRs for each operating company based solely on the PIS
16 associated with that company, or the limit of the capital investment level
17 for each operating company should be based on the forecasts provided for
18 each operating company.

19
20 20. Q. Does Staff have any recommendations with respect to the participation
21 agreement and associated transactions between AEP Ohio and Turning
22 Point?

1 A. On July 1, 2011, the Companies filed Supplemental Direct Testimony
2 which summarized the Turning Point Solar Project (TSP), provided the
3 proposed Participation Agreement, mentioned other necessary agreements
4 and requested recovery treatment. Staff has reviewed the Supplemental
5 filing. But a final determination of the appropriateness of costs associated
6 with the Turning Point Project should be subject to further review if and
7 when the Companies apply for recovery under the GRR.

8
9 21. Q. Does Staff concur that Columbus Southern Power's SEET obligations are
10 fulfilled if AEP Ohio's equity contributions are made at the financial close
11 dates for the three phases of Turning Point or at some later point for each
12 phase in connection with the take-out of the construction financings?

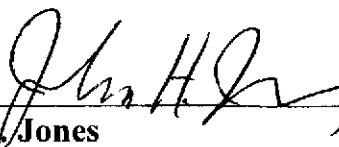
13 A. The Commission has stated that the \$20 M was to be expended by the close
14 of 2012 on this project or a similar project. *In re Columbus Southern*
15 *Power and Ohio Power Company*, Case No. 10-1261-EL-UNC (Opinion
16 and Order 26, 27) (January 11, 2011); *Id.* (Entry on Rehearing at 9, 10)
17 (March 9, 2011).

18
19 22. Q. Does this conclude your testimony?

20 A. Yes, it does.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prefiled Testimony of Doris McCarter**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following Parties of Record, this 4th day of August, 2011.



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