

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Fuel Adjustment)	Case No. 10-268-EL-FAC
Clauses for Columbus Southern Power)	Case No. 10-269-EL-FAC
Company and Ohio Power Company)	
and Related Matters for 2010.)	
)	
In the Matter of the Fuel Adjustment)	
Clauses for Columbus Southern Power)	Case No. 11-281-EL-FAC
Company and Ohio Power Company)	
and Related Matters.)	

**DIRECT TESTIMONY OF JOSEPH G. BOWSER
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

Samuel C. Randazzo, (Counsel of Record)
Frank P. Darr
Joseph E. Olikier
Matthew R. Pritchard
MCNEES WALLACE & NURICK LLC
21 East State Street, 17th Floor
Columbus, OH 43215-4228
Telephone: (614) 469-8000
Telecopier: (614) 469-4653
sam@mwncmh.com
fdarr@mwncmh.com
joliker@mwncmh.com
mpritichard@mwncmh.com

November 8, 2013

Attorneys for Industrial Energy Users-Ohio

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Fuel Adjustment)	Case No. 10-268-EL-FAC
Clauses for Columbus Southern Power)	Case No. 10-269-EL-FAC
Company and Ohio Power Company)	
and Related Matters for 2010.)	
)	
In the Matter of the Fuel Adjustment)	
Clauses for Columbus Southern Power)	Case No. 11-281-EL-FAC
Company and Ohio Power Company)	
and Related Matters.)	

**DIRECT TESTIMONY OF JOSEPH G. BOWSER
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

INDEX

Page No.

I.	INTRODUCTION	1
II.	CARRYING CHARGES ON THE DEFERRED BALANCES.....	4
III.	THE RFP CALLED FOR IN THE 2009 FAC CASE, THE 2009 FAC CASE CREDIT, AND THE 2008 CONTRACT SUPPORT AGREEMENT	11
IV.	CONCLUSION.....	15

CERTIFICATE OF SERVICE

EXHIBIT JGB-1

EXHIBIT JGB-2

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Fuel Adjustment)	Case No. 10-268-EL-FAC
Clauses for Columbus Southern Power)	Case No. 10-269-EL-FAC
Company and Ohio Power Company)	
and Related Matters for 2010.)	
)	
In the Matter of the Fuel Adjustment)	
Clauses for Columbus Southern Power)	Case No. 11-281-EL-FAC
Company and Ohio Power Company)	
and Related Matters.)	

**DIRECT TESTIMONY OF JOSEPH G. BOWSER
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

I. 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.

1 **Q4. Please describe your professional experience.**

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

18 **Q5. Have you previously submitted expert testimony before the Public Utilities**
19 **Commission of Ohio ("Commission" or "PUCO")?**

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

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

2 A6. I reviewed the 2009, 2010 and 2011 Reports of the Management/Performance
3 and Financial Audits of the fuel adjustment clauses (“FAC”) of Columbus
4 Southern Power Company (“CSP”) and Ohio Power Company (“OP”) (collectively
5 “AEP-Ohio” or the “Company”), which were conducted by Energy Ventures
6 Analysis and its subcontractor Larkin & Associates PLLC (“the auditors”), and
7 orders and entries issued by the Commission in this proceeding and in Case
8 Nos. 11-4920-EL-RDR, *et al.*,¹ 08-917-EL-SSO, *et al.*,² and 09-872-EL-FAC, *et*
9 *al.*³

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

12 **Q7. Will you summarize your recommendations?**

13 A7. Yes. My recommendations are summarized as follows:

14 1) Beginning in 2010, the carrying charges that have accrued on the
15 amounts deferred in AEP-Ohio's electric security plan (“ESP”) case have
16 been overstated and therefore should be reduced. Carrying charges
17 should be calculated on deferred balances that have been reduced for the
18 effects of accumulated deferred income taxes (“ADIT”). I recommend that
19 the Commission direct the Company to reduce the deferred balance that is

¹ *In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Section 4928.144, Ohio Revised Code, Case Nos. 11-4920-EL-RDR, et al.* (the “PIRR Case”).

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.* (the “ESP I Case”).

³ *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.* (the “2009 FAC Case”).

1 eligible for collection through the Phase-in Recovery Rider ("PIRR" or
2 "Rider PIRR") by approximately \$38 million to reflect reduced carrying
3 charges from January 2010 through December 2011, the period of the
4 audits in this proceeding, and to adjust Rider PIRR accordingly.

5 2) The Commission should issue the request for proposal ("RFP") called for
6 in the 2009 FAC Case with respect to the value of the coal reserve, as that
7 determination could further affect the OP deferred balance.

8 3) With regard to the future benefits associated with a coal mining contract
9 arrangement ("2008 Contract Support Agreement", or "Agreement"), which
10 were in exchange for the Company agreeing to pay higher coal costs in
11 2009, I recommend that the Commission require the Company to record a
12 regulatory liability for the estimated value of the future customer benefits
13 that will accrue from 2013 through 2018, and to amortize the regulatory
14 liability over the period that the benefits are realized. Alternatively, I
15 recommend that the Commission address in the next FAC audit
16 proceeding the establishment of a mechanism to assure that customers
17 receive all of the benefits from the Agreement.

18 II. CARRYING CHARGES ON THE DEFERRED BALANCES

19 **Q8. Please describe how the deferred balances that are the subject of these**
20 **proceedings came about.**

21 A8. In AEP-Ohio's first ESP case, the *ESP I Case*, the Commission authorized AEP-
22 Ohio to increase rates by a total dollar amount subject to a rate cap that limited
23 the amount of the increase AEP-Ohio could collect during the term of the ESP

1 from 2009 through 2011. The amount of the total increase subject to future
2 collection depended on the level of revenue collected by AEP-Ohio during the
3 term of the ESP relative to the amount the Commission could authorize AEP-
4 Ohio to collect and the appropriateness of AEP-Ohio's accounting regarding the
5 deferred balances. In addition, the total increase was subject to a variety of
6 future adjustments to determine the total amount of revenue that could be
7 recovered. The Commission held that it would determine the amount of the
8 deferred balances eligible for recovery at the conclusion of the ESP.

9 AEP-Ohio filed an application in a separate proceeding, the *PIRR Case*, which
10 sought authorization to begin amortization of the deferred balances.

11 AEP-Ohio's accrual of carrying charges on deferred amounts not adjusted to
12 account for ADIT has been disputed in different Commission proceedings and is
13 currently on appeal to the Ohio Supreme Court. As is evident from comments
14 filed in the *PIRR Case*, testimony of Commission Staff witnesses,⁴ the current
15 fuel audit reports, the Commission's⁵ and Supreme Court of Ohio's⁶ past
16 precedent and practice, testimony of AEP-Ohio's affiliated companies in other

⁴ *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 Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO, *et al.*, Staff Ex. 109 at 8 (the "*ESP II Case*") (stating, "The other critically important issues regarding PIRR mechanics should move forward on their own merits in Case Nos. 11-4920-EL-RDR and 11-4921-EL-RDR. Items of note filed in Staff Comments on April 2, 2012 include the following . . . [t]he ending fuel deferral balance at the end of December 2011 should be reduced for Accumulated Deferred Income Taxes (ADIT) in the calculation of carrying costs for Rider PIRR.") (found at <http://dis.puc.state.oh.us/TiffToPDF/A1001001A12E09B72620C21781.pdf>).

⁵ *ESP II Case*, Opinion and Order at 47 (Aug. 8, 2012).

⁶ *Cincinnati v. Public Utilities Comm.*, 161 Ohio St. 395, 405-06 (1954); *Ohio Bell Telephone Co. v. Public Utilities Comm.*, 68 Ohio St. 2d 193, 194 (1981); *Cleveland Electric Illuminating Company v. Public Utilities Comm.*, 12 Ohio St. 2d 320, 323 (1984) (determining that the Commission's order is consistent with the principle that tax benefits must be flowed-through to customers).

jurisdictions,⁷ and sound regulatory principles require the recognition of tax benefits available to the utility in determining carrying charges. One of those tax benefits is reflected in ADIT. On August 1, 2012, in the *PIRR Case*, the Commission authorized AEP-Ohio to increase electric rates to permit AEP-Ohio to commence amortization of what amounted to overstated deferred balances because of the lack of an ADIT adjustment. In my opinion, the Commission's decision to permit AEP-Ohio to commence amortization of the overstated phase-in deferred balances without adhering to sound regulatory principles that, among other things, require an offset to the deferred balances to recognize ADIT is inappropriate—it provides a carrying charge windfall to AEP-Ohio at customers' expense.

Q9. Explain further why you believe that ADIT must be recognized in the determination of the carrying charges.

A9. In accordance with generally accepted accounting principles, there is a “book” (accounting) vs. “tax” (federal income tax return) timing difference that results when items impact the books by a different amount than they impact the tax return. When such a book vs. tax accounting difference results in the tax return impact being greater than the book impact, then ADIT is recorded on the liability side of the balance sheet. Likewise, in traditional cost of service ratemaking for electric plant investment, there may be book to timing differences created by

⁷ Thomas Mitchell, Managing Director of Regulatory Accounting Services of American Electric Power Service Corporation, has testified in a state that utilizes traditional cost of service ratemaking that it would be appropriate to calculate carrying charges on a deferred balance adjusted for ADIT. Rebuttal Testimony of Thomas E. Mitchell on Behalf of Appalachian Power Company and Wheeling Power Company Before the Public Service Commission of West Virginia in Case No. 09-0177-E-GI at 6-8 (Jun. 5, 2009) (found at: <http://www.psc.state.wv.us/scripts/WebDocket/ViewDocument.cfm?CaseActivityID=269707>) (Attached as Exhibit JGB-2).

1 differences in book and tax depreciation, which result in ADIT. To account for
2 these timing differences, ADIT must be recognized in determining the amounts
3 that are properly eligible to be recovered from customers.

4 Requiring utilities to reflect the benefit of ADIT as a reduction to rates is not a
5 new concept. It is a long held regulatory practice that ADIT is a source of cost-
6 free capital to utility companies, as illustrated by the fact that in the regulatory
7 determination of rate base, ADIT is a credit amount that reduces the rate base
8 upon which an electric distribution utility ("EDU") is authorized to earn a return.
9 At its simplest level, a revenue requirement consists of two components: a rate
10 base times a rate of return, plus operating expenses. A rate base's largest
11 component is net plant investment and the theory is that the EDU should be able
12 to earn a return on that rate base because its investors invested in the plant to
13 serve the EDU's customers. However, if there is associated ADIT, which
14 represents capital that the EDU's investors did not provide, then the ADIT is used
15 to reduce the rate base so that the EDU is not overcompensated.

16 **Q10. Can you illustrate the mechanics of ADIT and explain why it is a source of**
17 **cost-free capital?**

18 A10. To illustrate the mechanics of ADIT under the *ESP I* Case rate cap discussed
19 earlier, if AEP-Ohio's total expenses were \$200 but the rate cap limited recovery
20 to \$100 of expenses, AEP-Ohio would book \$100 for accounting purposes (book
21 accounting), and defer the remaining \$100. Yet, AEP-Ohio would be able to
22 deduct \$200 for tax purposes (*i.e.*, on its federal income tax return). Because
23 AEP-Ohio can benefit from an immediate deduction on its tax return without

1 concurrently recognizing the total amount of expense on its books, there is an
2 ADIT benefit equal to the \$100 difference between the “book” and the “tax”
3 expense, multiplied by the tax rate. Assuming a 35 percent tax rate, AEP-Ohio
4 would reduce its federal income tax liability by \$35. Because AEP-Ohio received
5 \$35 through the tax benefit, AEP-Ohio is essentially able to finance \$100 of the
6 deferral with only \$65 of either debt, equity, or a combination of both.

7 **Q11. Why shouldn’t AEP-Ohio be allowed to accrue carrying charges on the**
8 **entire deferred balances?**

9 A11. Carrying charges are intended to compensate the utility for the cost of carrying
10 the deferred balances until they are collected from customers. Because ADIT
11 provides cost-free capital that AEP-Ohio need not finance through debt or equity,
12 in the example above, it would only be proper to authorize AEP-Ohio to calculate
13 carrying charges on a balance of \$65 (\$100 deferred balance minus the \$35
14 ADIT), as the remainder was financed by ADIT. To authorize AEP-Ohio to
15 calculate carrying charges without an adjustment for ADIT would allow AEP-Ohio
16 to accrue carrying charges on overstated balances and require customers to
17 overcompensate AEP-Ohio for capital that was not financed.

18 **Q12. Has the Commission recognized that this regulatory treatment is proper**
19 **and appropriate?**

20 A12. The Commission has recognized that this is the proper and appropriate
21 regulatory treatment in numerous cases. The Commission recognized just a
22 week after the Finding and Order in the *PIRR Case* that the benefit of ADIT must
23 be reflected in rates. In the *ESP II Case*, the Commission authorized the

1 Distribution Investment Rider (“Rider DIR”) for recovery of investments related to
2 distribution plant. One of the issues concerning the setting of the rider rates was
3 the determination of the proper balance for calculating the carrying charges.

4 Over AEP-Ohio’s objection, the Commission stated:

5 We agree with Staff and Kroger that the DIR mechanism be revised
6 to account for ADIT. The Commission finds that it is not
7 appropriate to establish the DIR rate mechanism in a manner which
8 provides the Company with the benefit of ratepayer supplied funds.
9 Any benefit resulting from ADIT should be reflected in the DIR
10 revenue requirement. Therefore, the Commission directs AEP-Ohio
11 to adjust its DIR to reflect the ADIT offset.⁸

12
13 **Q13. What is the magnitude of the ADIT balance attributed to the PIRR and the**
14 **total PIRR deferral?**

15 A13. Using publicly available information as of December 31, 2012, the ADIT balance
16 reported on OP’s FERC Form 1 for the PIRR was approximately \$175.8 million.
17 In its PIRR compliance tariff filing dated August 8, 2012 in the *PIRR Case*, AEP-
18 Ohio estimated that the deferred balances to be recovered as of September 1,
19 2012 were approximately \$600 million. Therefore, the impact of removing the
20 ADIT balance from the carrying charge calculation would be a very substantial
21 reduction to the carrying charges that customers will be required to pay.

22 **Q14. Please quantify the adjustment that you are recommending be made to the**
23 **carrying charges.**

24 A14. The carrying charge calculation made by the Company is to take the deferred
25 balances times the carrying charge rate. The resulting carrying charges are then
26 added to the deferred balances, and the total deferred balances are included in

⁸ *ESP II Case*, Opinion and Order at 47 (Aug. 8, 2012).

1 the PIRR. Prior to the amortization of the PIRR balance, which commenced in
2 September 2012, carrying charges were accrued at the Company's weighted
3 average cost of capital ("WACC"), and commencing with the amortization,
4 carrying charges were accrued at the Company's cost of long-term debt. I have
5 calculated the estimated carrying charge reduction that would result from
6 calculating the carrying charges on the deferred balance reduced by ADIT from
7 January 2010 through December 2011, the period covered by the FAC audits.
8 My calculation shows that carrying charges would be reduced by an estimated
9 \$38 million, and I recommend that this reduction should be reflected in Rider
10 PIRR rates.

11 **Q15. Did the FAC auditors address the calculation of carrying charges on the**
12 **deferred balances in their reports in the current proceedings?**

13 A15. Yes. The FAC auditors addressed carrying charges in both the 2010 audit report
14 in Case Nos. 10-268-EL-FAC, *et al.*, and the 2011 audit report in Case No. 11-
15 281-EL-FAC. In their financial audit recommendations in the 2011 report, the
16 auditors recommended that AEP-Ohio and the other parties to the case examine
17 whether the carrying charge rate should be applied to what investors are actually
18 financing of the deferred balances, which are the deferred amounts recorded in
19 Account 182 - Other Regulatory Assets, less the directly related credit balance
20 recorded in Account 283 - ADIT-Other. The auditors further recommended that
21 the Company address the income tax savings it was/is recording related to the
22 deferred balances, and how those savings provide non-investor supplied capital
23 that is financing a portion of the deferred balances that have been recorded in
24 Account 182 – Other Regulatory Assets. The auditors also recommended that

1 the Company specifically address the related credit balance ADIT that is
2 recorded in Account 283 - ADIT-Other, for the tax savings-based financing that is
3 related to the deferred balances.⁹

4 **III. THE RFP CALLED FOR IN THE 2009 FAC CASE, THE 2009 FAC CASE**
5 **CREDIT, AND THE 2008 CONTRACT SUPPORT AGREEMENT**

6 **Q16. What recommendation do you have with respect to the RFP called for in the**
7 **2009 FAC Case?**

8 A16. In the *2009 FAC Case*, an issue was raised that I recommend be addressed by
9 the Commission. In that case, the Commission found at page 12 of its January
10 23, 2012 Opinion and Order and again at page 3 of its April 11, 2012 Entry on
11 Rehearing that an RFP was to be issued by subsequent entry for the purpose of
12 selecting and hiring an auditor to examine the value of the West Virginia coal
13 reserve ("coal reserve"). At the present time, there has not been an entry issued
14 for the RFP in that case. Depending on the findings under that future RFP with
15 respect to the value of the coal reserve, there could be an additional reduction
16 that would be appropriate to make to the deferred balances in addition to the
17 credit that the Commission already ordered in the *2009 FAC Case*. Such an
18 adjustment would further reduce the total deferred balances to ultimately be
19 recovered, as well as result in reduced carrying charges, and reduced Rider
20 PIRR rates.

⁹ *In the Matter of the Application the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company and Related Matters*, Case No. 11-281-EL-FAC, Report of the Management/Performance and Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company, Financial Audit Recommendations 5 and 6 at 1-9 and 1-10 (May 24, 2012); *In the Matter of the Application the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company and Related Matters*, Case No. 10-268-EL-FAC, Report of the Management/Performance and Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company, Financial Audit Recommendations 21 and 22 at 1-10 (May 26, 2011).

1 **Q17. What recommendation do you have with respect to the credit the**
2 **Commission previously directed AEP-Ohio to make in the 2009 FAC Case?**

3 A17. On January 23, 2012 the Commission issued an Opinion and Order in the 2009
4 FAC Case directing AEP-Ohio to credit against OP's deferred balance the portion
5 of the \$30 million 2008 lump sum payment not already credited to OP ratepayers
6 as well as the \$41 million value that AEP-Ohio booked for the coal reserve. On
7 April 11, 2012, the Commission issued an Entry on Rehearing clarifying that OP's
8 deferred balance "need only be credited for the share of the settlement
9 agreement allocable to Ohio's retail jurisdictional customers."¹⁰ IEU-Ohio has
10 appealed the Commission's allocation of the credit to the Ohio Supreme Court.
11 Regardless of the outcome of that appeal, the auditor has recommended that
12 "AEP Ohio's crediting of those clarified amounts against OPCO's FAC under-
13 recovery should be reviewed in the next audit."¹¹ IEU-Ohio supports the auditor's
14 recommendation that the next auditor determine whether AEP-Ohio appropriately
15 allocated the Commission-ordered credit to the FAC.

16 **Q18. Please summarize the 2008 Contract Support Agreement ("Agreement").**

17 A18. First, my reference to this item as the 2008 Contract Support Agreement is to
18 match the terminology used by the Commission in the 2009 FAC Case.¹² Under
19 the Agreement, CSP agreed to increase the base price for a certain tonnage of

¹⁰ 2009 FAC Case, Entry on Rehearing at 6 (Apr. 11, 2012).

¹¹ *In the Matter of the Application the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company and Related Matters*, Case No. 11-281-EL-FAC, Report of the Management/Performance and Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company, Financial Audit Recommendation 7 at 1-10 (May 24, 2012).

¹² 2009 FAC Case, Opinion and Order at 9 (Jan. 23, 2012).

1 coal during 2009 with the option to acquire coal at a discount off the market price
2 per ton for two three-year extensions of the Agreement beginning in 2013.

3 At a high level, the Agreement created a mismatch for the recognition of the
4 costs and benefits. The costs were passed on to customers in the *2009 FAC*
5 Case, but some of the benefits were not to be realized until 2013 and after.

6 **Q19. Has IEU-Ohio previously raised any issues with respect to the Agreement?**

7 A19. Yes. IEU-Ohio argued that customers incurred higher costs for coal in 2009 but
8 had no assurance that they will receive any of the future benefits, unless CSP
9 refunded the increased price per ton that the Company agreed to pay for coal
10 during 2009 and accounted for the total increase as a deferred expense. The
11 deferred expense would then be amortized if and when CSP exercised the
12 options for the respective three-year extensions of the Agreement beginning in
13 2013.

14 **Q20. What did the Commission conclude on this issue?**

15 A20. In the *2009 FAC Case*, the Commission determined that “any effect these
16 agreements may have had on AEP-Ohio’s fuel costs, if any, would appear to
17 apply in time periods outside of the current audit. Therefore, while those
18 agreements may be examined in a future audit, those agreements will not be
19 examined as part of the current audit.”¹³

20 **Q21. What is your recommendation with respect to the Agreement?**

21 A21. The mismatch between the costs and benefits of the Agreement still exists. By
22 its January 23, 2012 Opinion, the Commission ruled that the Agreement would

¹³ *Id.* at 14.

1 not be examined in the 2009 FAC Case audit, but instead may be examined in a
2 future audit.¹⁴ Inasmuch as the Agreement's benefits would be realized during
3 the 2013-2018 timeframe of the two three-year contract extensions, and because
4 the FAC is now expected to terminate during 2015, at least the portion of the
5 benefits that would accrue once the FAC terminates could be lost to customers
6 forever. I believe this would be an unreasonable outcome as customers paid for
7 the associated costs in 2009, but may never get back any benefits; instead the
8 benefits would improperly flow to the Company.

9 Therefore, I recommend that the Commission require the Company to record a
10 regulatory liability for the estimated value of the future customer benefits that will
11 accrue from 2013 through 2018 and to amortize the regulatory liability over the
12 period that the benefits are realized. The amortization would first be made as
13 reductions to the FAC rates as long as the FAC is in existence, then as
14 reductions to another cost or a regulatory asset that the Commission deems
15 appropriate. If the Commission does not adopt my recommendation then,
16 alternatively, I recommend that the Commission revisit this issue, in the next FAC
17 audit proceeding (the RFP which was issued by Commission Entry dated
18 October 23, 2013 in Case No. 12-3133-EL-FAC, *et al.*), for the purpose of putting
19 in place a mechanism to assure that customers receive all of the benefits from
20 the Agreement including any benefits that would apply for the period after the
21 Company's FAC terminates.

¹⁴ *Id.*

1 **IV. CONCLUSION**

2 **Q22. Does this conclude your prepared direct testimony?**

3 A22. Yes. However, I reserve the right to update this testimony for any outstanding
4 discovery responses or additional information that is submitted by other parties in
5 this case.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Joseph G. Bowser on Behalf of Industrial Energy Users-Ohio* was served upon the following parties of record this 8th day of November 2013, *via* electronic transmission, hand-delivery or first class U.S. mail, postage prepaid.

/s/ Joseph E. Olikier

Joseph E. Olikier

Steven T. Nourse
Yazen Alami
American Electric Power Service
Corporation
1 Riverside Plaza, 29th Floor
Columbus, OH 43215
stnourse@aep.com
yalami@aep.com

**COUNSEL FOR COLUMBUS SOUTHERN POWER
COMPANY AND OHIO POWER COMPANY**

Terry Etter
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43215-3485
etter@occ.state.oh.us

**COUNSEL FOR OFFICE OF THE OHIO
CONSUMERS' COUNSEL**

Rocco D'Ascenzo
Associate General Counsel
Amy B. Spiller
State Regulatory General Counsel
Jeanne W. Kingery
Associate General Counsel
139 E. Fourth Street, 1303-Main
Cincinnati, OH 45202
Rocco.d'ascenzo@duke-energy.com
Amy.Spiller@duke-energy.com
Jeanne.kingery@duke-energy.com

COUNSEL FOR DUKE ENERGY OHIO, INC.

John J. Kulewicz
M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P.O. Box 1008
Columbus, Ohio 43216-1008
jjkulewicz@vorys.com
mhpetricoff@vorys.com
smhoward@vorys.com

COUNSEL FOR BUCKINGHAM COAL COMPANY

Philip B. Sineneng
Thompson Hine LLP
41 S. High Street, Suite 1700
Columbus, OH 43215
Philip.Sineneng@ThompsonHine.com

**COUNSEL FOR DUKE ENERGY COMMERCIAL
ASSET MANAGEMENT, INC.**

Thomas McNamee
Steven Beeler
Assistant Attorneys General
Public Utilities Section
180 E. Broad Street, 6th Floor
Columbus, OH 43215-3793
thomas.mcnamee@puc.state.oh.us
steven.beeler@puc.state.oh.us

**COUNSEL FOR THE STAFF OF THE PUBLIC
UTILITIES COMMISSION OF OHIO**

Sarah Parrot
Greta See
Attorney Examiners
Public Utilities Commission of Ohio
180 E. Broad Street
Columbus, OH 43215-3793
sarah.parrot@puc.state.oh.us
Greta.See@puc.state.oh.us

ATTORNEY EXAMINERS

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

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.

**REBUTTAL TESTIMONY OF
THOMAS E. MITCHELL
ON BEHALF OF APPALACHIAN POWER COMPANY AND
WHEELING POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA IN CASE NO. 09-0177-E-GI**

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Thomas E. Mitchell.

3 ~~**Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**~~

4 **PROCEEDING?**

5 A. Yes.

6 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A. The purpose of my rebuttal testimony is to address the recommendations of Staff
8 witness Oxley, Consumer Advocate Division (CAD) witness Gregg and West
9 Virginia Energy Users Group (WVEUG) witness Baron regarding the use of a
10 short-term debt rate to calculate carrying costs (CC) on deferred ENEC under-
11 recovery balances associated with various phase in plans (PIP) proposed in this
12 case. I will also discuss WVEUG witness Baron's recommendation to reduce the
13 monthly deferral balance on which a CC is applied by the associated
14 Accumulated Deferred Income Taxes (ADIT).

15 Finally, I will provide additional comments on the need for the
16 Commission's order in this proceeding, regardless of which PIP is ordered, to
17 provide sufficient assurances that the deferred ENEC balances will be recovered
18 over a reasonable period of time. Such assurances are necessary so the
19 Companies can continue to practice SFAS No. 71 regulatory accounting.

1 **Q. DO YOU AGREE THAT IT WOULD BE APPROPRIATE TO USE A**
2 **SHORT-TERM DEBT RATE TO CALCULATE A CC DURING A PIP**
3 **THAT EXCEEDS ONE YEAR?**

4 A. No, I do not. As described in my direct testimony on pages 8 and 9, it is
5 necessary to use a WACC rate to calculate a CC in order to recover the full cost
6 of financing the ENEC phase-in deferral arising from the significantly longer lag
7 between cost incurrence and subsequent recovery in ENEC rates. A WACC rate
8 recognizes that both debt and equity capital need to be raised by the Companies
9 to finance the deferred ENEC balances which will be recoverable over a multi-
10 year period. The sheer size of the expected deferred ENEC under-recovery,
11 coupled with the Companies' current debt/equity capitalization ratios, would not
12 permit the financing of such significant amounts from only short-term debt.
13 Company witness Fransen further discusses the implications of financing the
14 ENEC deferrals resulting from a PIP, and the implications on the Companies'
15 credit metrics.

16 **Q. UNDER WHAT CIRCUMSTANCES DOES WVEUG WITNESS BARON**
17 **RECOMMEND THAT A SHORT-TERM DEBT RATE BE USED TO**
18 **CALCULATE A CC DURING AN ENEC PIP?**

19 A. WVEUG witness Baron's PIP recommendation, which is addressed by Company
20 witness Eads, is to extend the Companies' proposed three-year recovery period
21 for projected ENEC costs to five years, to match the Companies' proposed
22 recovery period for prior-period under-recovery amounts (Baron, pages 11-13).

1 He supports (Baron, page 17-18) the Companies' proposal to use a WACC rate to
 2 accrue a CC on deferred ENEC balances, and the Companies' proposed method
 3 of calculating a CC based on the methodology sponsored by Company witness
 4 Eads, if the Companies' proposed PIP is extended as he proposes.
 5 WVEUG witness Baron recommends (Baron, page 17) the use of a short-term
 6 debt rate to calculate a CC during an ENEC PIP only if his recommended five-
 7 year PIP is not adopted by the Commission.

8 **Q. DOES WVEUG WITNESS BARON PROVIDE ANY JUSTIFICATION**
 9 **FOR USING A SHORT-TERM DEBT RATE, AS OPPOSED TO A WACC**
 10 **RATE, FOR PIPS SHORTER THAN FIVE YEARS?**

11 A. The only justification offered by WVEUG witness Baron is that "the use of a
 12 short-term debt cost approach will provide some mitigation to the very high
 13 increases under the Companies' proposal." (Baron, page 17). WVEUG witness
 14 Baron does not take issue with my direct testimony that a full WACC rate is
 15 required to compensate the Companies for the deferrals produced by its PIP
 16 proposal, which as WVEUG witness Baron acknowledges, has both a three-year
 17 and a five-year component. Rather, he simply states as follows:
 18 "While I do not believe that a WACC carrying charge is necessary in a three-year
 19 plan, I accept its use in the extended five-year plan that I am proposing." (Baron,
 20 page 17). WVEUG witness Baron's explanation presents a distinction without a
 21 difference.

22 Any of the multi-year PIPs proposed in this case, coupled with the sheer
 23 size of the associated under-recovery balances, create a need for the Companies to

1 finance the delayed recovery of financing costs for significantly longer than one
2 year. The Companies' actual financing costs must be recovered or they will
3 become a de facto lender with inadequate reimbursement of their incurred
4 financing costs. Multi-year PIPs of the type recommended in this case require
5 long-term financing, as explained by Company witness Fransen and as reflected
6 in a WACC rate, as opposed to short-term financing.

7 **Q. PLEASE SUMMARIZE THE POSITIONS TAKEN BY STAFF WITNESS**
8 **OXLEY AND CAD WITNESS GREGG REGARDING THE**
9 **APPROPRIATE CC TO USE DURING AN ENEC PIP AND THE**
10 **DEFERRED ENEC BALANCE TO WHICH THAT CC RATE SHOULD**
11 **BE APPLIED.**

12 **A.** Staff witness Oxley recommends (Oxley, page 20) using a short-term debt rate as
13 a CC on deferred ENEC balances, if the Commission decides that a CC is
14 appropriate. As I understand his recommendation, Staff Witness Oxley is
15 proposing (Oxley, page 19) that a CC should be applied, if at all, to ENEC
16 balances as of the end of the historical period -- in this case, December 31, 2008.

17 CAD witness Gregg recommends (Gregg, page 113) that CCs should be
18 based upon the Companies' actual short-term debt rate for the previous month.
19 As I read his testimony, beginning July 1, 2009, CAD witness Gregg proposes
20 (Gregg, page 113) that the Companies be allowed to begin accruing a CC on the
21 under-recovery balance existing on December 31, 2008. He also proposes
22 (Gregg, page 114) that CCs should be allowed on additional monthly under-
23 recoveries after July 1, 2009.

1 **Q. WHAT REASONS DO STAFF WITNESS OXLEY AND CAD WITNESS**
2 **GREGG CITE TO SUPPORT THE USE OF A SHORT-TERM DEBT**
3 **RATE TO CALCULATE A CC IN THIS CASE?**

4 A. Both Staff witness Oxley (Oxley, page 20) and CAD witness Gregg (Gregg, pages
5 113-114) recommend using a short-term debt rate to accrue CC in this case
6 because, beginning in 2005, interest was accrued on “the Bank” using APCo’s
7 short-term debt rate. CAD witness Gregg also indicates (Gregg, page 114) that a
8 short-term debt rate was used to calculate CCs in certain gas cost recovery cases.

9 **Q. DO THESE REASONS JUSTIFY USE OF A SHORT-TERM DEBT RATE**
10 **TO ACCRUE CC ON ENEC UNDER-RECOVERY BALANCES, GIVEN**
11 **THE VARIOUS PIP PROPOSALS IN THIS CASE AND THEIR**
12 **ASSOCIATED UNRECOVERED ENEC BALANCES?**

13 A. No. The use of a short-term debt rate during any multi-year phase-in will not
14 adequately compensate the Companies for their related incurred financing costs.
15 Extended recoveries have a real cost associated with them that is comprised of
16 both equity and long-term debt. As explained by Company witness Fransen, the
17 financing of the expected hundreds of millions of dollars of under-recovery
18 balances during the phase-ins proposed in this case cannot be accomplished with
19 only short-term debt. The use of a short-term debt rate to calculate a CC on the
20 significant deferrals that will result from adoption of any of the phase-in proposals
21 in this case does not provide recovery of the significant CC associated with those
22 deferrals.

1 **Q. ON WHICH DEFERRED ENEC BALANCES SHOULD THE**
2 **COMPANIES BE AUTHORIZED TO APPLY A CC BASED UPON THE**
3 **WACC RATE?**

4 A. As discussed in Company witness Eads' direct testimony (Eads, page 6) and also
5 in his rebuttal testimony, the WACC rate should be applied to all deferred ENEC
6 balances in excess of those balances that would otherwise occur under the
7 traditional ENEC recovery procedures.

8 Staff witness Oxley's proposal that a CC should be applied, if at all, only
9 to ENEC balances as of the end of the historical review period, is inadequate.
10 Simply stated, his proposal would not permit the Companies to recover any CC on
11 a significant part of the deferred ENEC balances in excess of those balances that
12 would otherwise occur under the Commission's traditional ENEC procedures.

13 While CAD witness Gregg's proposal appears to provide for a CC both on
14 under-recovery balances existing on December 31, 2008 and on additional
15 monthly under-recoveries beginning July 1, 2009, as explained by Company
16 witness Eads' in his rebuttal testimony, the Companies have determined that CAD
17 witness Gregg's proposal does not provide them with a CC on all deferred ENEC
18 balances in excess of those balances that occur under the traditional procedures.

19 **Q. PLEASE DESCRIBE WVEUG WITNESS BARON'S PROPOSAL**
20 **REGARDING ADIT.**

21 A. WVEUG witness Baron recommends that the monthly deferred balances on
22 which a CC is applied should be reduced by the ADIT associated with the

1 monthly deferred amounts (Baron, page 18). His approach is effectively a full
2 cost of service approach as if a rate base calculation was being undertaken.

3 **Q. IS WVEUG WITNESS BARON'S APPROACH CONSISTENT WITH THE**
4 **CALCULATION USED TO DEVELOP THE COMPANIES'**
5 **CONSTRUCTION SURCHARGE?**

6 A. Yes. The Companies' construction surcharge is intended to effectively treat new
7 construction as if it were included in rate base with an offset for any related
8 ADIT.

9 **Q. HAVE ENEC UNDER OR OVER-RECOVERY BALANCES**
10 **HISTORICALLY BEEN INCLUDED IN RATE BASE BY THE**
11 **COMMISSION?**

12 A. No.

13 **Q. WOULD WVEUG WITNESS BARON'S PROPOSED ADIT OFFSET BE**
14 **APPROPRIATE UNDER CERTAIN CIRCUMSTANCES?**

15 A. Yes. If the Commission determines that the adoption of a PIP is akin to using a
16 rate base approach, it would be appropriate to adopt an ADIT offset, but only if a
17 WACC is used. However, it would be entirely inappropriate to make an ADIT
18 offset, if a CC rate other than the WACC rate is used. This distinction is critical
19 as a WACC rate approach effectively simulates the rate base approach (with cost-
20 free capital recognized). The use of only a short-term debt rate to calculate CC,
21 with an ADIT offset, is not akin to a rate base approach because such an approach
22 ignores long-term debt and equity costs. An ADIT offset should not be used
23 unless a full WACC rate is also applied.

1 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY RELATING**
 2 **TO CARRYING CHARGES.**

3 A. The use of a CC based upon a full WACC rate is necessary if any of the multi-
 4 year PIPs proposed in this case is adopted by the Commission in order to permit
 5 the Companies to recover their full actual incurred costs of financing the hundreds
 6 of millions of dollars of under-recovered balances that would result. A related
 7 ADIT offset would only be appropriate if a full WACC rate is used. An ADIT
 8 offset would be inappropriate if a full WACC is not used to determine CC on
 9 under-recovery balances.

10 **Q. DO YOU HAVE ANY CONCLUDING COMMENTS AS TO WHAT**
 11 **LANGUAGE NEEDS TO BE INCLUDED IN ANY COMMISSION ORDER**
 12 **ADOPTING A PIP TO SUPPORT PROBABILITY OF RECOVERY OF**
 13 **ANY DEFERRED ENEC BALANCES, INCLUDING RELATED**
 14 **CARRYING CHARGES?**

15 A. Yes. As discussed in my direct testimony, if the Commission adopts any of the
 16 proposed PIPs, the Commission's order should state in specific language that it
 17 intends to provide for full recovery of any deferred ENEC balances, including
 18 CC, over a reasonable fixed period of time, including subsequent ENEC
 19 proceedings (subject to the Commission's normal language that costs must be
 20 prudently incurred). Inclusion of such language should enable the Companies to
 21 continue to comply with the probability of recovery requirement in SFAS No.71,
 22 and to practice regulatory deferral accounting of the deferred ENEC balances as
 23 either regulatory assets or regulatory liabilities.

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

11/8/2013 4:14:35 PM

in

Case No(s). 10-0268-EL-FAC, 10-0269-EL-FAC, 11-0281-EL-FAC

Summary: Testimony Direct Testimony of Joseph G. Bowser on Behalf of Industrial Energy Users-Ohio electronically filed by Mr. Joseph E. Olikar on behalf of Industrial Energy Users-Ohio