

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Applications of Ohio :
Power Company for Administration of the :
Significantly Excessive Earnings Test for : Case No. 13-2251-EL-UNC
2012 Under Section 4928.143(F), Revised :
Code, and Rule 4901:1-35-10, Ohio :
Administrative Code. :

**PREFILED TESTIMONY
OF
JOSEPH P. BUCKLEY
UTILITIES DEPARTMENT
CAPITAL RECOVERY & FINANCIAL ANALYSIS DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

April 7, 2014

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

2 A. My name is Joseph P. Buckley. My business address is 180 E. Broad
3 Street, Columbus, Ohio, 43215.

4 2. Q. By who are you employed?

5 A. I am employed by the Public Utilities Commission of Ohio (PUCO).
6

7 3. Q. Would you please state your background?

8 A. I received a Bachelor of Science Degree in Economics from the Ohio State
9 University and a Master's Degree in Business Administration from the Uni-
10 versity of Dayton. In 2000, I earned the Certified in Financial Management
11 (CFM) designation, awarded by the Institute of Management Accountants.
12 I attended The Annual Regulatory Studies Program sponsored by The
13 National Association of Regulatory Utility Commissioners (NARUC) and
14 The Training for Utility Management Analysts, also sponsored by NARUC.
15 I have been employed by the PUCO since 1987. Since that time I have
16 progressed through various positions and was promoted to my current posi-
17 tion of Utility Specialist 3 in 2000. In addition, I have worked on several
18 joint Federal Communications Commission (FCC) and NARUC projects
19 and audits and served on the Midwest ISO's Finance Committee as Vice-
20 Chairman and Chairman. In 2011, I was awarded the professional designa-
21 tion Certified Rate of Return Analyst (CRRRA) by the Society of Utility and

1 Regulatory Financial Analysts. This designation is awarded based upon
2 experience and successful completion of a written examination.

3
4 4. Q. What is your involvement in this proceeding?

5 A. I am responsible for determining if Columbus Southern Power (CSP) and /
6 or Ohio Power (OP) exceeded the common equity threshold to be used in
7 its Significantly Excessive Earnings Test (SEET). Based on Staff's review
8 of the information provided in CSP's and OP's applications Staff believes
9 that OP fell well within the safe harbor provision¹ in 2011 as a stand alone
10 company and in 2012 after the merger between OP and CSP was completed
11 (with OP being the remaining company).

12
13 Based upon its FERC Form 1 filing, OP's 2011 earned return on equity
14 (ROE) was 7.75 percent, and 8.56 percent after adjustments were made for
15 Off System Sales (OSS) and special accounting items (adjustments). These
16 earnings levels fall within the 2011 safe harbor of 13.03 percent in 2011.

17

¹ Safe Harbor is the ROE produced by a comparable group of companies, established using the SPDR Select Sector Fund-Utility (XLU), plus 200 basis points. See Staff Exhibits 1 and 2 for the analysis of the average common equity for the comparable group of companies, their standard deviation, the application of the confidence interval, and the resulting SEET threshold.

1 In 2012, the merged Ohio Power ROE was 7.65 percent per FERC Form 1
2 and 9.76 percent after adjustments. This fell within the 2012 safe harbor of
3 12.29 percent.

4
5 In 2011, CSP's ROE was 15.28 percent per FERC Form 1 and 12.12 per-
6 cent after adjustments. 12.12 percent also falls within the safe harbor of
7 13.03 percent. However 15.28 percent exceeds the safe harbor provision,
8 but Staff does not believe it is significantly excessive for the reason stated
9 below.

10 5. Q. What is the Staff's recommendation to the Commission in this proceeding?

11 A. The Staff recommends that the Commission find that Columbus Southern
12 Power (CSP) and / or Ohio Power (OP) did not exceed the common equity
13 significantly excessive threshold in 2011 and 2012; therefore, no refunds
14 are warranted.

15
16 6. Q. Have CSP and OP removed Off System Sales (OSS) and special accounting
17 items from the earnings calculation?

18 A. Yes. CSP and OP filed, as detailed in the direct testimony of Company wit-
19 ness Thomas E. Mitchell, return on equity information that removed the
20 effects of Off System Sales (OSS) and special accounting issues. As out-
21 lined in the Opinion and Order in Case No. 10-1261-EL-UNC (pages 30
22 and 31), the Commission ordered that the effects of OSS should be

1 removed. In Form 8-K filed with the Securities and Exchange Commis-
2 sion, the Company provided detail on the special accounting issues that
3 Staff believes should be removed for SEET purposes.
4

5 7. Q. Has the Staff reviewed CSP's and OP's 2011 and 2012 earnings calcula-
6 tions and concurs with the results?

7 A. Yes. The Staff has reviewed CSP's and OP's calculations and supporting
8 information and finds them to be in conformance with the SEET earnings
9 calculation methodology as approved previously by the Commission and is
10 an accurate representation of their 2011 and 2012 earnings.
11

12 8. Q. What methodology did Staff employee to determine significant excessive
13 earnings?

14 A. Staff used the companies that comprise the SPDR Select Sector Fund –Util-
15 ity (XLU) as its comparable group. The Staff then totaled the net income
16 earned by those companies and divided it by the total common equity of
17 each of the companies as detailed in Staff Exhibit 1 (2011) and Staff
18 Exhibit 2 (2012).
19

20 This produced a ROE of approximately 11.03 percent in 2011. The Staff
21 then applied an adder in 2011 of 5.94 percent, which is the standard devia-
22 tion of comparable companies multiplied by 1.64 (using a 95 percent confi-

dence threshold). When the ROE is combined with the adder the result is 16.97 percent. Staff determined any result under 16.97 percent would not be considered significantly excessive. Because CSP's 2011 ROE was 15.28 percent, Staff does not believe CSP had significantly excessive earnings that year.

Staff used a similar method in 2012 which resulted in a ROE of 10.29 percent and an adder of 5.01 percent. Therefore, in 2012 Staff would consider any result under 15.31 percent as not being significantly excessive.

9. Q. Why did Staff use the components of XLU as its comparables group?

A. XLU is the most widely traded utility ETF (electronically traded fund) and the components are selected by an independent third party that is not involved in this proceeding. This independence removes any bias in selecting the comparable group.

Also, Staff believes the use of XLU not only removes bias from the selection of the comparable group, but that it fosters use of a simplistic process that produces consistent reasonable results. Having more parties understand the process will allow greater participation in the review.

1 Finally the Commission used this approach in cases 11-4571-EL-UNC and
2 11-4572-EL-UNC to determine the comparable ROE.

3
4 10. Q. Why did Staff adopt the standard deviation approach in establishing the
5 adder to the ROE?

6 A. In previous SEET cases (11-4571-EL-UNC and 11-4572-EL-UNC), the
7 Commission used this approach² in establishing the adder to the XLU
8 comparable group ROE.

9
10 11 Q. If the Commission were to factor into its consideration the use of a 50 per-
11 cent adder would Staff consider CSP and / or OP ROEs to be excessive in
12 2011 and /or 2012?

13 A. No. In 2011 the threshold would be 16.54 percent and in 2012 it would be
14 15.40 percent, neither of which would cause Staff to consider CSP's and /or
15 OP's ROEs to be excessive.

16
17 12. Q. Doe this conclude your testimony?

² *In the Matter of the Application of Columbus Southern Power Company for Administration of the Significantly Excessive Earnings Test under Section 4 928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code, Case Nos. 11-4571-EL-UNC, et al. (Opinion and Order at 27) (October 23, 2013).*

1 A. Yes, it does. However, I reserve the right to submit supplemental testi-
2 mony as described herein, as new information subsequently becomes avail-
3 able or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of **Joseph P. Buckley** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 7th day of April, 2014.

/s/ Thomas W. McNamee

Thomas W. McNamee

Assistant Attorney General

Parties of Record:

Steven T. Nourse
American Electric Power Corp.
1 Riverside Plaza
Columbus, OH 43215
stnourse@aep.com

Daniel R. Conway
Porter Wright Morris & Arthur
41 South High Street
Columbus, OH 43215-6194
dconway@porterwright.com

Exhibit 1

Company	Ticker	Common Equity 12/31/10	Common Equity 12/31/11	Average of 10 and 11	Net Income	ROE
AES Corp.	AES	6,473.00	5,946.00	6,209.50	447	7.20%
AGL Resources	GAS	1,103.80	1,813.00	1,458.40	234	16.04%
Amer. Elec. Power	AEP	13,622.00	14,664.00	14,143.00	1,513.00	10.70%
Ameren Corp.	AEE	7,730.00	7,919.00	7,824.50	602	7.69%
Consol. Edison	ED	11,061.00	11,061.00	11,061.00	992	8.97%
Dominion Resources	D	11,997.00	11,446.00	11,721.50	1,603.00	13.68%
DTE Energy	DTE	6,722.00	7,009.00	6,865.50	624	9.09%
Duke Energy	DUK	22,522.00	22,772.00	22,647.00	1,839.00	8.12%
Edison Int'l	EIX	10,583.00	10,055.00	10,319.00	1,112.00	10.78%
Entergy Corp.	ETR	8,496.40	8,961.27	8,728.84	1,367.37	15.66%
Exelon Corp.	EXC	13,560.00	13,560.00	13,560.00	2,567.00	18.93%
FirstEnergy Corp.	FE	8,545.00	13,280.00	10,912.50	752	6.89%
Integrus Energy	TEG	2,905.80	2,961.40	2,933.60	230.9	7.87%
NextEra Energy	NEE	14,461.00	14,943.00	14,702.00	2,021.00	13.75%
NiSource Inc.	NI	4,923.20	4,923.20	4,923.20	294.6	5.98%
Northeast Utilities	NU	3,811.18	4,012.67	3,911.93	400.25	10.23%
NRG Energy	NRG	8,072.00	7,420.00	7,746.00	197	2.54%
ONEOK Inc.	OKE	2,448.62	2,448.62	2,448.62	334.63	13.67%
Pepco Holdings	POM	4,230.00	4,230.00	4,230.00	276	6.52%
PG&E Corp.	PCG	11,282.00	12,101.00	11,691.50	1,132.00	9.68%
PPL Corp.	PPL	8,210.00	10,828.00	9,519.00	1,456.00	15.30%
Progress Energy	PGN	10,023.00	9,930.00	9,976.50	860	8.62%
Public Serv. Enterprise	PEG	9,633.00	10,270.00	9,951.50	1,577.00	15.85%
SCANA Corp.	SCG	3,702.00	3,889.00	3,795.50	387	10.20%
Sempra Energy	SRE	9,027.00	9,838.00	9,432.50	1,088.00	11.53%
Southern Co.	SO	16,202.00	17,578.00	16,890.00	2,268.00	13.43%
TECO Energy	TE	2,169.70	2,266.60	2,218.15	272.6	12.29%
Wisconsin Energy	WEC	3,802.10	3,963.30	3,882.70	514	13.24%
Xcel Energy Inc.	XEL	8,083.52	8,482.20	8,282.86	841.37	10.16%
		245,401.32	258,571.26	251,986.29	27,802.72	

ROE	11.03%	
		3.62%
Standard Deviation		1.64
Adder		5.94%
SEET Threshold		16.97%

Exhibit 2

Company	Ticker	Common Equity 12/31/11	Common Equity 12/31/12	Average 11 and 12	Net Income	ROE
AES Corp.	AES	5,946.00	4,569.00	5257.5	936.4	17.81%
AGL Resources	GAS	1,813.00	3,413.00	2613	271	10.37%
Amer. Elec. Power	AEP	14,664.00	15,237.00	14950.5	1,443.00	9.65%
Ameren Corp.	AEE	7,919.00	6,616.00	7267.5	589	8.10%
Consol. Edison	ED	11,061.00	11,869.00	11465	1,141.00	9.95%
Dominion Resources	D	11,446.00	10,568.00	11007	1,594.00	14.48%
DTE Energy	DTE	7,009.00	7,373.00	7191	666	9.26%
Duke Energy	DUK	22,772.00	40,863.00	31817.5	2,136.00	6.71%
Edison Int'l	EIX	10,055.00	9,432.00	9743.5	1,594.00	16.36%
Entergy Corp.	ETR	8,961.27	9,197.09	9079.18	1,091.86	12.03%
Exelon Corp.	EXC	13,560.00	21,431.00	17495.5	1,579.00	9.03%
FirstEnergy Corp.	FE	13,280.00	13,084.00	13182	891	6.76%
Integrus Energy	TEG	2,961.40	3,025.80	2993.6	294.2	9.83%
NextEra Energy	NEE	14,943.00	16,068.00	15505.5	1,911.00	12.32%
NiSource Inc.	NI	4,923.20	5,554.30	5238.75	410.6	7.84%
Northeast Utilities	NU	4,012.67	9,237.05	6624.86	532.97	8.05%
NRG Energy	NRG	7,420.00	10,284.00	8852	559	6.31%
ONEOK Inc.	OKE	2,448.62	2,129.61	2289.115	346.34	15.13%
Pepco Holdings	POM	4,230.00	4,446.00	4338	285	6.57%
PG&E Corp.	PCG	12,101.00	13,074.00	12587.5	893	7.09%
PPL Corp.	PPL	10,828.00	10,480.00	10654	1,536.00	14.42%
Public Serv. Enterprise	PEG	10,270.00	10,780.00	10525	1,239.00	11.77%
SCANA Corp.	SCG	3,889.00	4,154.00	4021.5	420	10.44%
Sempra Energy	SRE	9,838.00	10,282.00	10060	1,079.00	10.73%
Southern Co.	SO	17,578.00	18,297.00	17937.5	2,415.00	13.46%
TECO Energy	TE	2,266.60	2,291.80	2279.2	246	10.79%
Wisconsin Energy	WEC	3,963.30	4,135.10	4049.2	547.5	13.52%
Xcel Energy Inc.	XEL	8,482.20	8,874.08	8678.14	905.2	10.43%
		248,641.26	286,764.83	267,703.05	27,552.07	

ROE	10.29%	
		3.06%
Standard Deviation		1.64
Adder		5.01%
SEET Threshold		15.31%

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Summary: Testimony Prefiled Testimony of Joseph P. Buckley submitted by Assistant Attorney General Thomas McNamee on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio