

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :
Power Company for Administration of the : Case No. 14-875-EL-UNC
Significantly Excessive Earnings Test :
Pursuant to R.C. 4928.143(F), and Ohio :
Adm. Code 49901:1-35-10. :

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

Staff Exhibit _____

October 9, 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
5 2. Q. By who are you employed?

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

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

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

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

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

6 A. I am responsible for determining if Ohio Power (OP) exceeded the common
7 equity threshold to be used in its Significantly Excessive Earnings Test
8 (SEET). Based on Staff's review of the information provided in OP's
9 applications Staff believes that OP fell below the SEET threshold provision
10 in 2013

11
12 OP's 2013 earned return on equity (ROE) was 8.95 percent and 11.28 per-
13 cent after adjustments were made for Off System Sales (OSS) and special
14 accounting items (adjustments). These amounts fall below the 14.24 per-
15 cent Staff calculated SEET threshold.

16
17 5. Q. What is the Staff's recommendation to the Commission in this proceeding?

18 A. The Staff recommends that the Commission find OP did not exceed the
19 common equity threshold in 2013 and that no refunds are warranted.

20
21 6. Q. Have OP removed in its calculation Off System Sales (OSS) and special
22 accounting items?

1 A. Yes, as detailed in the direct testimony of Company witness Thomas E.
2 Mitchell, OP's return on equity information removed the effects of Off Sys-
3 tem Sales (OSS) and special accounting issues. As outlined in the Opinion
4 and Order in case 10-1261-EL-UNC (on pages 30 and 31), the Commission
5 believes that the effects of OSS should be removed.

6
7 7. Q. Has the Staff reviewed OP's 2013 earnings calculation and concur with its
8 results?

9 A. Yes. The Staff has reviewed OP's calculations and supporting information
10 and finds them to be in conformance with the SEET calculation methodol-
11 ogy as approved previously by the Commission and is an accurate repre-
12 sentation of their 2013 earnings.

13
14 8. Q. What methodology did Staff employ to determine significant excessive
15 earnings?

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

20
21 This produced a ROE of approximately 9.04 percent in 2013. The Staff
22 then applied an adder of in 5.20 percent, which is the standard deviation of

1 comparable companies multiplied by 1.64 (using a 95 percent confidence
2 threshold). When the ROE is combined with the adder the result is 14.24
3 percent. Staff determined any result under 14.24 percent would not be con-
4 sidered significantly excessive.

5
6 9. Q. Why did Staff use the components of XLU as its comparables group?

7 A. XLU is the most widely traded utility ETF (electronically traded fund) and
8 the components are selected by an independent third party that is not
9 involved in this proceeding. This independence removes any bias in select-
10 ing the comparable group. That is one reason Staff would advocate having
11 an independent party selecting the comparables.

12
13 Also, Staff believes the use of XLU not only removes bias from the selec-
14 tion of the comparable group, but that it fosters use of a simplistic process
15 that produces consistent reasonable results. Having more parties under-
16 stand the process will allow greater participation in the review.

17
18 Finally the Commission used this approach in cases 11-4571-EL-UNC and
19 11-4572-EL-UNC, to determine the comparable ROE.

20
21 10. Q. Why did Staff adopt the standard deviation approach in establishing the
22 adder to the ROE?

1 A. In CSP and OP’s previous SEET cases (11-4571-EL-UNC and 11-4572-
2 EL-UNC), the Commission used this approach¹ in establishing the adder
3 to the XLU comparable group ROE.

4
5 11. Q. In Case No. 10-1261-EL-UNC (CSP’s and OP’s 2009 SEET case) the
6 Commission opinion and order stated that “50 percent is a reasonable guide
7 for establishing an adder.” If the 50 percent adder was applied, would Staff
8 consider CSP and / or OP ROEs to be excessive in 2011 and /or 2012?

9 A. No. In 2013 the threshold would be 13.56 percent which Staff would not
10 consider excessive.

11
12 12. Q. Does this conclude your testimony?

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

¹ *In the Matter of the Application of Columbus Southern Power Company for Administration of the Significantly Excessive Earnings Test under Section 4928143(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) (Oct. 23, 2013).*

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 9th day of October, 2014.

Thomas W. McNamee
Assistant Attorney General

Parties of Record:

Steven T. Nourse
American Electric Power
1 Riverside Plaza
Columbus, OH 43215

Attachment 1

Company	Ticker	Common Equity 12/31/13	Common Equity 12/31/12	Average 12 and 13	Net Income	ROE
AES Corp.	AES	4,330.00	4,569.00	4,449.50	934.00	20.99%
AGL Resources	GAS	3,631.00	3,413.00	3,522.00	313.00	8.89%
Amer. Elec. Power	AEP	16,085.00	15,237.00	15,661.00	1,549.00	9.89%
Ameren Corp.	AEE	6,544.00	6,616.00	6,580.00	518.00	7.87%
Center Pont Energy Inc.	CNP	4,329.00	4,301.00	4,315.00	536.00	12.42%
Consol. Edison	ED	3,454.00	11,869.00	7,661.50	454.00	5.93%
CMS Energy Corp.	CMS	12,245.00	3,194.00	7,719.50	1,157.00	14.99%
Dominion Resources	D	11,642.00	10,568.00	11,105.00	1,806.00	16.26%
DTE Energy	DTE	7,921.00	7,373.00	7,647.00	661.00	8.64%
Duke Energy	DUK	41,330.00	40,863.00	41,096.50	2,813.00	6.84%
Edison Int'l	EIX	9,938.00	9,432.00	9,685.00	1,344.00	13.88%
Entergy Corp.	ETR	9,632.00	9,197.09	9,414.55	904.00	9.60%
Exelon Corp.	EXC	22,732.00	21,431.00	22,081.50	1,999.00	9.05%
FirstEnergy Corp.	FE	1,292.00	13,084.00	7,188.00	1,245.00	17.32%
Integrus Energy	TEG	3,261.00	3,025.80	3,143.40	350.00	11.13%
NextEra Energy	NEE	18,040.00	16,068.00	17,054.00	2,062.00	12.09%
NiSource Inc.	NI	5,887.00	5,554.30	5,720.65	491.00	8.58%
Northeast Utilities	NU	9,612.00	9,237.05	9,424.53	794.00	8.42%
NRG Energy	NRG	10,220.00	10,284.00	10,252.00	-395.00	-3.85%
Pepco Holdings	POM	4,315.00	4,446.00	4,380.50	280.00	6.39%
Pinnacle West Capital	PNW	14,342.00	4,102.00	9,222.00	828.00	8.98%
PG&E Corp.	PCG	4,194.00	13,074.00	8,634.00	406.00	4.70%
PPL Corp.	PPL	12,466.00	10,480.00	11,473.00	1,541.00	13.43%
Public Serv. Enterprise	PEG	11,608.00	10,780.00	11,194.00	1,243.00	11.10%
SCANA Corp.	SCG	4,664.00	4,154.00	4,409.00	471.00	10.68%
Sempra Energy	SRE	11,008.00	10,282.00	10,645.00	1,060.00	9.96%
Southern Co.	SO	19,008.00	18,297.00	18,652.50	2,439.00	13.08%
TECO Energy	TE	2,334.00	2,291.80	2,312.90	198.00	8.56%

Wisconsin Energy	WEC	4,233.00	4,135.10	4,184.05	579.00	13.84%
Xcel Energy Inc.	XEL	9,566.00	8,874.08	9,220.04	948.00	10.28%
		299,863.00	296,232.22	298,047.61	29,528.00	
ROE					9.91%	
						4.38%
Standard Deviation						1.64
Adder						7.18%
SEET Threshold						17.09%

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Case No(s). 14-0875-EL-UNC

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