

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Determination of the	:	
Existence of Significantly Excessive Earnings for	:	Case No. 17-993-EL-UNC
2016 Under the Electric Security Plan of Ohio	:	
Edison Company, The Cleveland Electric	:	
Illuminating Company, and the Toledo Edison	:	
Company.	:	

**PREFILED TESTIMONY
OF
JOSEPH P. BUCKLEY
RATES AND ANALYSIS DEPARTMENT
FORECASTING, MARKETS & CORPORATE OVERSIGHT DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

December 8, 2017

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
12 Management (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 Commis-
15 sioners (NARUC) and The Training for Utility Management Analyst also
16 sponsored by NARUC. I have been employed by the PUCO since 1987.
17 Since that time I have progressed through various positions and was
18 promoted to my current position of Utility Specialist 3, in 2000. In addi-
19 tion, I have worked on several joint Federal Communication Commission
20 (FCC) and NARUC projects and audits and served on the Midwest ISO's
21 Finance Committee as Vice-Chairman and Chairman. Also, in 2011, I was
22 awarded the professional designation Certified Rate of Return Analyst

1 (CRRA) by the Society of Utility and Regulatory Financial Analysts. This
2 designation is awarded based upon experience and successful completion of
3 a written examination.
4

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

6 A. I am responsible for determining if Cleveland Electric Illuminating
7 Company (CEI), Ohio Edison Company (OE) and The Toledo Edison
8 Company (TE) (collectively, the Companies) exceeded the return on
9 common equity threshold to be used in its Significantly Excessive Earnings
10 Test (SEET). The adjusted returns on equity earned in 2016 by the
11 Companies were as follows: CEI earned 3.4%, OE earned 10.2%, and TE
12 earned 4.4%.
13

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

15 A. Staff recommends that the Commission find that each CEI, OE and TE did
16 not have excessive earnings in 2016.
17

18 6. Q. Has the Staff reviewed CEI, OE, and TE's 2016 earnings calculations and
19 concur with their results?

20 A. Yes. Staff has reviewed CEI, OE, and TE's calculations and supporting
21 information and finds them to be in conformity with the SEET calculation

provisions contained in CEI, OE, and TE's electric security plan (ESP) and are an accurate representation of CEI, OE, and TE's 2016 earnings.

7. Q. What methodology did Staff employ to determine significant excessive earnings?

A. Staff used the companies that comprise the SPDR Select Sector Fund – Utility (XLU) as its comparable group (Comparable Group). The Staff then totaled the net income earned by the Comparable Group and divided it by the aggregate total common equity of the Comparable Group as detailed in Attachment 1.

This produced an average return on equity (ROE) of approximately 5.71 percent in 2016. Staff then applied an adder in 2016 of 34.00 percent, which is the standard deviation of the average ROEs of the Comparable Group multiplied by 1.64 (using a 95 percent confidence threshold). The sum of the average ROE of the Comparable Group when combined with the adder results in an earnings threshold of 39.7 percent, as shown in Attachment 1a.

However, Staff believes a few of the companies in the Comparable Group had earnings that injected too much volatility into the average and caused the standard deviation in 2016 earnings to be too great. These companies

1 were AES, FirstEnergy, and NRG Energy. Once Staff removed these
2 companies from the calculation, the ROE became 8.67 percent and the
3 earnings threshold became 16.08 percent. Staff believes that the adjusted
4 earnings threshold of 16.08 percent is a more reliable number to use to
5 determine excess earnings in 2016.

6
7 8. Q. Why did Staff use the components of XLU as its comparable group?

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

13
14 In addition, Staff believes the use of XLU not only removes bias from the
15 selection of the comparable group, but that it also fosters use of a simple
16 and transparent process that generally produces consistent, reasonable
17 results. Having more parties understand the process will allow greater
18 participation in the review. Finally the Commission used this approach in
19 multiple previous SEET cases to determine the comparable ROE.

1 9. Q. If Staff's goal is to remove any bias from selecting a comparable group,
2 why did they remove AES, FirstEnergy, and NRG Energy from the calcu-
3 lation?

4 A. Staff was very reluctant to remove any companies from the Comparable
5 Group. However, Staff believes that those data points created a skewed
6 distribution that produced an unreliable result.

7
8 10. Q. Why did Staff adopt the standard deviation approach in establishing the
9 adder to the ROE?

10 A. Staff's approach is in line with prior Commission orders. In previous SEET
11 the Commission used this approach in establishing the adder to the XLU
12 comparable group ROE.¹

13
14 11. Q. Does this conclude your testimony?

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

¹ See *In the Matter of the Application of Columbus Southern Power Company for Administration of the Significantly Excessive Earnings Test under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code*, Case No. 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 via electronic mail upon the following parties of record, this 8th day of December, 2017.

/s/ Thomas W. McNamee

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Attachment 1

Symbol	Company Name	Net Income	Equity 2016	Equity 2015	Average Common Equity	ROACE
NEE	NextEra Energy Inc	2,912,000	24,341,000	22,574,000	23,457,500	12.41%
DUK	Duke Energy Corp	2,152,000	41,033,000	39,727,000	40,380,000	5.33%
SO	Southern Co	2,448,000	24,758,000	20,592,000	22,675,000	10.80%
D	Dominion Resources Inc	2,123,000	14,605,000	12,664,000	13,634,500	15.57%
PCG	PG&E Corporation	1,393,000	17,940,000	16,576,000	17,258,000	8.07%
AEP	American Electric Power	610,900	17,397,000	17,891,700	17,644,350	3.46%
EXC	Exelon Corp	1,134,000	25,837,000	25,793,000	25,815,000	4.39%
SRE	Sempra Energy	1,370,000	12,951,000	11,809,000	12,380,000	11.07%
EIX	Edison Intl	1,311,000	11,996,000	11,368,000	11,682,000	11.22%
PPL	PPL Corp	1,902,000	9,899,000	9,919,000	9,909,000	19.19%
ED	Consolidated Edison Inc	1,056,000	11,829,000	11,415,000	11,622,000	9.09%
PEG	Public Service Enterprise Grp	887,000	13,130,000	13,066,000	13,098,000	6.77%
XEL	Xcel Energy Inc	1,123,379	11,020,849	10,600,920	10,810,885	10.39%
WEC	WEC Energy Group Inc	939,000	8,929,800	8,654,800	8,792,300	10.68%
ES	Eversource Energy	942,302	10,711,734	10,352,215	10,531,975	8.95%
DTE	DTE Energy Co	622,000	5,995,000	5,673,000	5,834,000	10.66%
FE	FirstEnergy Corp	(6,177,000)	6,241,000	12,421,000	9,331,000	-66.20%
AWK	American Water Works Co Inc	468,000	5,218,000	5,049,000	5,133,500	9.12%
ETR	Entergy Corp	(583,618)	8,081,809	9,256,791	8,669,300	-6.73%
AEE	Ameren Corp	653,000	7,103,000	6,946,000	7,024,500	9.30%
CMS	CMS Energy Corp	551,000	4,253,000	3,938,000	4,095,500	13.45%
CNP	Centerpoint Energy Inc	432,000	3,460,000	3,461,000	3,460,500	12.48%
PNW	Pinnacle West Capital (AZ)	442,034	4,803,622	4,583,917	4,693,770	9.42%
SCG	SCANA Corp	595,000	5,725,000	5,443,000	5,584,000	10.66%
LNT	Alliant Energy Corp	371,500	3,862,000	3,724,100	3,793,050	9.79%
NI	Nisource Inc	331,500	4,071,200	3,843,500	3,957,350	8.38%
AES	AES Corp	(1,130,000)	2,794,000	319,000	1,556,500	-72.60%
NRG	NRG Energy	(774,000)	6,241,000	2,707,000	4,474,000	-17.30%
		18,104,997			317,297,479	5.71%
					5.71%	
						20.73%
						1.64
						34.00%
						39.70%

Attachment 1a

Symbol	Company Name	Net Income	Equity 2016	Equity 2015	Average Common Equity	ROACE
NEE	NextEra Energy Inc	2,912,000	24,341,000	22,574,000	23,457,500	12.41%
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LNT	Alliant Energy Corp	371,500	3,862,000	3,724,100	3,793,050	9.79%
NI	Nisource Inc	331,500	4,071,200	3,843,500	3,957,350	8.38%
		26,185,997			301,935,979	8.67%
					8.67%	
						4.52%
						1.64
						7.41%
						16.08%

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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