

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Determination of the	:	
Existence of Significantly Excessive	:	
Earnings for 2017 Under the Electric	:	Case No. 18-857-EL-UNC
Security plans of Ohio Edison Company,	:	
The Cleveland Electric Illuminating	:	
Company, and The Toledo Edison	:	
Company.	:	

**PREFILED TESTIMONY
OF
JOSEPH P. BUCKLEY
RATES AND ANALYSIS DEPARTMENT**

Staff Exhibit _____

Dated: October 16, 2018

1 **Name and Employer**

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

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

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

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

10 **Academic Background and Professional Experience**

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

13 A. I received a Bachelor of Science Degree in Economics from the Ohio State
14 University and a Master in Business Administration Degree from the
15 University of Dayton.

17 4. Q. Please describe your work experience and professional training.

18 A. I have been employed by the PUCO since 1987. Since that time I have
19 progressed through various positions and was promoted in 2000 to my
20 current position of Utility Specialist 3. In addition, I have worked on
21 several joint Federal Communications Commission (FCC) and NARUC
22 projects and audits, and served on the Midwest Independent System

1 Operator's (now Midcontinent System Operator, Inc.) Finance Committee
2 as Vice-Chairman and Chairman. Also, in 2011, I was awarded the
3 professional designation Certified Rate of Return Analyst (CRRRA) by the
4 Society of Utility and Regulatory Financial Analysts. This designation is
5 awarded based upon experience and successful completion of a written
6 examination.

7 In 2000, I earned the Certified in Financial Management (CFM)
8 designation, awarded by the Institute of Management Accountants. Also, I
9 attended The Annual Regulatory Studies Program sponsored by The
10 National Association of Regulatory Utility Commissioners (NARUC) and
11 The Training for Utility Management Analyst also sponsored by NARUC.

12
13 5. Q. Have you testified in previous cases at the PUCO?

14 A. Yes. I have testified in numerous cases before the PUCO.
15

16 **Purpose of Testimony**
17

18 6. Q. What is Staff's recommendation to the Commission in this proceeding?

19 A. Staff recommends that the Commission find that each Cleveland Electric
20 Illuminating Company (CEI), Ohio Edison Company (OE) and The Toledo
21 Edison Company (TE) did not have excessive earnings in 2017.
22

1 7. Q. Has the Staff reviewed CEI, OE, and TE's 2017 earnings calculations and
2 concur with their results?

3 A. Yes. Staff has reviewed CEI, OE and TE's calculations and supporting
4 information and finds them to be in conformity with the SEET calculation
5 provisions contained in CEI, OE and TE's electric security plan (ESP)¹ and
6 are an accurate representation of CEI, OE and TE's 2017 earnings.

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

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

15 This produced an average return on equity (ROE) of approximately 8.73
16 percent in 2017. Staff then applied an adder in 2017 of 21.55 percent,
17 which is the standard deviation of the average ROEs of the Comparable
18 Group multiplied by 1.64 (using a 95 percent confidence threshold). The
19 sum of the average ROE of the Comparable Group when combined with the

¹ See *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Eighth Entry on Rehearing (Aug. 16, 2017).

1 adder results in an earnings threshold of 30.28 percent, as shown in Staff
2 Exhibit 1a.

3 However, Staff believes a few of the companies in the Comparable Group
4 had earnings that injected too much volatility into the average and caused
5 the standard deviation in 2017 earnings to be too great. These companies
6 were AES, FirstEnergy, NRG Energy and SCANA. Once Staff removed
7 these companies from the calculation, the ROE became 9.89 percent and
8 the earnings threshold became 17.22 percent. Staff believes that the
9 adjusted earnings threshold of 17.22 percent is a more reliable number to
10 use to determine excess earnings in 2017.

11
12 9. Q. Why did Staff use the components of XLU as its comparable group?

13 A. XLU is the most widely traded utility electronically traded fund (ETF) and
14 the components are selected by an independent third party that is not
15 involved in this proceeding. This independence removes any bias in
16 selecting the comparable group. That is one reason Staff would advocate
17 having an independent party selecting the comparable companies.

18 In addition, Staff believes the use of XLU not only removes bias from the
19 selection of the comparable group, but that it also fosters use of a simple
20 and transparent process that produces consistent reasonable results. Having
21 more parties understand the process will allow greater participation in the

1 review. Finally, the Commission used this approach in multiple previous
2 SEET cases to determine the comparable ROE.

3
4 10. Q. If Staff's goal is to remove any bias from selecting a comparable group
5 why did they remove AES, FirstEnergy, NRG and SCANA Energy from
6 the calculation?

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

10
11 11. Q. Why did Staff adopt the standard deviation approach in establishing the
12 adder to the ROE?

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

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

18 A. Yes it does.

² 1-4571-EL-UNC and 11-4572-EL-UNC Opinion and Order page 27.

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 via electronic mail upon the following parties of record this 16th day of October, 2018.

/s/Thomas W. McNamee

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Staff Exhibit 1

Symbol	Company Name	Net Income	Equity 2016	Equity 2017	Average Common Equity	ROACE
NEE	NextEra Energy Inc	\$5,320,000	\$24,341,000	\$29,498,000	\$26,919,500	19.76%
DUK	Duke Energy Corp	\$3,064,000	\$41,033,000	\$41,737,000	\$41,385,000	7.40%
SO	Southern Co	\$926,000	\$24,758,000	\$25,528,000	\$25,143,000	3.68%
D	Dominion Resources Inc	\$3,120,000	\$14,605,000	\$19,370,000	\$16,987,500	18.37%
PCG	PG&E Corporation	\$1,660,000	\$17,940,000	\$19,472,000	\$18,706,000	8.87%
AEP	American Electric Power	\$1,928,900	\$17,397,000	\$18,313,600	\$17,855,300	10.80%
EXC	Exelon Corp	\$3,849,000	\$25,837,000	\$32,132,000	\$28,984,500	13.28%
SRE	Sempra Energy	\$351,000	\$12,951,000	\$13,847,000	\$13,399,000	2.62%
EIX	Edison Intl	\$668,000	\$11,996,000	\$13,866,000	\$12,931,000	5.17%
PPL	PPL Corp	\$1,128,000	\$9,899,000	\$10,761,000	\$10,330,000	10.92%
ED	Consolidated Edison Inc	\$1,525,000	\$11,829,000	\$15,425,000	\$13,627,000	11.19%
PEG	Public Service Enterprise Grp	\$1,574,000	\$13,130,000	\$13,847,000	\$13,488,500	11.67%
XEL	Xcel Energy Inc	\$1,148,000	\$11,020,849	\$11,455,000	\$11,237,925	10.22%
WEC	WEC Energy Group Inc	\$940,200	\$8,929,800	\$8,929,800	\$8,929,800	10.53%
ES	Eversource Energy	\$99,551	\$10,711,734	\$11,086,242	\$10,898,988	0.91%
DTE	DTE Energy Co	\$1,112,000	\$5,995,000	\$9,990,000	\$7,992,500	13.91%
AWK	American Water Works Co Inc	\$426,000	\$5,218,000	\$5,385,000	\$5,301,500	8.04%
ETR	Entergy Corp	\$425,353	\$8,081,809	\$7,992,515	\$8,037,162	5.29%
AEE	Ameren Corp	\$529,000	\$7,103,000	\$7,326,000	\$7,214,500	7.33%
CMS	CMS Energy Corp	\$462,000	\$4,253,000	\$4,478,000	\$4,365,500	10.58%
PNW	Pinnacle West Capital (AZ)	\$507,000	\$4,803,622	\$5,135,730	\$4,969,676	10.20%
LNT	Alliant Energy Corp	\$467,500	\$3,862,000	\$4,382,200	\$4,122,100	11.34%
NI	Nisource Inc	\$128,500	\$4,071,200	\$4,320,100	\$4,195,650	3.06%
		\$31,359,004			\$317,021,601	9.89%
					9.89%	
						4.47%
						1.64
						7.33%
						17.22%

Source -SNL Financial

NRG, FE, SCANA and AES were removed because they were considered outliers

Staff Exhibit 1A

Symbol	Company Name	Net Income	Equity 2016	Equity 2017	Average Common Equity	ROACE
NEE	NextEra Energy Inc	5,320,000	24,341,000	29,498,000	26,919,500	19.76%
DUK	Duke Energy Corp	3,064,000	41,033,000	41,737,000	41,385,000	7.40%
SO	Southern Co	926,000	24,758,000	25,528,000	25,143,000	3.68%
D	Dominion Resources Inc	3,120,000	14,605,000	19,370,000	16,987,500	18.37%
PCG	PG&E Corporation	1,660,000	17,940,000	19,472,000	18,706,000	8.87%
AEP	American Electric Power	1,928,900	17,397,000	18,313,600	17,855,300	10.80%
EXC	Exelon Corp	3,849,000	25,837,000	32,132,000	28,984,500	13.28%
SRE	Sempra Energy	351,000	12,951,000	13,847,000	13,399,000	2.62%
EIX	Edison Intl	668,000	11,996,000	13,866,000	12,931,000	5.17%
PPL	PPL Corp	1,128,000	9,899,000	10,761,000	10,330,000	10.92%
ED	Consolidated Edison Inc	1,525,000	11,829,000	15,425,000	13,627,000	11.19%
PEG	Public Service Enterprise Grp	1,574,000	13,130,000	13,847,000	13,488,500	11.67%
XEL	Xcel Energy Inc	1,148,000	11,020,849	11,455,000	11,237,925	10.22%
WEC	WEC Energy Group Inc	940,200	8,929,800	8,929,800	8,929,800	10.53%
ES	Eversource Energy	99,551	10,711,734	11,086,242	10,898,988	0.91%
DTE	DTE Energy Co	1,112,000	5,995,000	9,990,000	7,992,500	13.91%
FE	FirstEnergy Corp	(1,724,000)	6,241,000	3,925,000	5,083,000	-33.92%
AWK	American Water Works Co Inc	426,000	5,218,000	5,385,000	5,301,500	8.04%
ETR	Entergy Corp	425,353	8,081,809	7,992,515	8,037,162	5.29%
AEE	Ameren Corp	529,000	7,103,000	7,326,000	7,214,500	7.33%
CMS	CMS Energy Corp	462,000	4,253,000	4,478,000	4,365,500	10.58%
CNP	Centerpoint Energy Inc	1,792,000	3,460,000	4,688,000	4,074,000	43.99%
PNW	Pinnacle West Capital (AZ)	507,000	4,803,622	5,135,730	4,969,676	10.20%
SCG	SCANA Corp	(777,000)	5,725,000	5,255,000	5,490,000	-14.15%
LNT	Alliant Energy Corp	467,500	3,862,000	4,382,200	4,122,100	11.34%
NI	Nisource Inc	128,500	4,071,200	4,320,100	4,195,650	3.06%
AES	AES Corp	(777,000)	2,794,000	4,845,000	3,819,500	-20.34%
NRG	NRG Energy	(237,000)	6,241,000	1,968,000	4,104,500	-5.77%
		29,636,004			339,592,601	8.73%
					8.73%	
						13.14%
						1.64
						21.55%
						30.28%

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Case No(s). 18-0857-EL-UNC

Summary: Testimony Joseph P. Buckley electronically filed by Ms. Tonnetta Scott on behalf of PUC