

**BEFORE  
THE OHIO POWER SITING BOARD**

In the Matter of the Application of :  
Ohio Power Company for Administration :  
of the Significantly Excessive Earnings : Case No. 18-0989-EL-UNC  
Test Pursuant to R.C. 4928.143(F) and :  
Ohio Adm.Code 4901:1-35-10. :

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

**Staff Exhibit \_\_**

**May 8, 2019**

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

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

4  
5    **2.    Q.    By whom are you employed?**

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

8  
9    **3.    Q.    Please briefly describe your academic background.**

10          A.    I received a Bachelor of Science in Economics from The Ohio State  
11                      University and a Master in Business Administration Degree from the  
12                      University of Dayton.

13  
14    **4.    Q.    Please describe your work experience and professional training.**

15          A.    I have been employed by the PUCO since 1987. Since that time, I have  
16                      progressed through various positions and was promoted in 2000 to my  
17                      current position of Utility Specialist 3. In addition, I have worked on  
18                      several joint Federal Communications Commission (FCC) and NARUC  
19                      projects and audits, and served on the Midwest Independent System  
20                      Operator's (now Midcontinent System Operator, Inc.) Finance Committee  
21                      as Vice-Chairman and Chairman. Also, in 2011, I was awarded the  
22                      professional designation Certified Rate of Return Analyst (CRRRA) by the

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

4  
5 In 2000, I earned the Certified in Financial Management (CFM)  
6 designation, awarded by the Institute of Management Accountants. Also, I  
7 attended The Annual Regulatory Studies Program sponsored by The  
8 National Association of Regulatory Utility Commissioners (NARUC) and  
9 The Training for Utility Management Analyst also sponsored by NARUC.

10  
11 **5. Q. Have you testified in previous cases at the PUCO?**

12 A. Yes, I have testified in numerous cases before the PUCO.

13  
14 **6. Q. What is your involvement in this proceeding?**

15 A. I am responsible for determining if Ohio Power exceeded the common  
16 equity threshold to be used in its Significantly Excessive Earnings Test  
17 (SEET). Based on Staff's review of the information provided in Ohio  
18 Power's application, Staff believes that Ohio Power fell well below the  
19 SEET threshold in 2017.

20  
21 **7. Q. What is Staff's recommendation to the Commission in this proceeding?**

1           A.     Staff recommends that the Commission find Ohio Power did not exceed the  
2                   common equity threshold in 2017, and that no refunds are warranted.

3  
4   **8.     Q.     Has Staff reviewed Ohio Power’s earnings calculations?**

5           A.     Yes, Staff has reviewed Ohio Power’s calculations and supporting  
6                   information. While Staff does not necessarily agree or disagree with the  
7                   method Ohio Power used to represent 2017 SEET earnings, it does not  
8                   believe the Company exceeded the SEET threshold, based on Staff’s  
9                   methodology described in testimony below.

10  
11   **9.     Q.     What methodology did Staff employ to determine significant excessive**  
12                   **earnings?**

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

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

1 sum of the average ROE of the Comparable Group when combined with the  
2 adder results in an earnings threshold of 30.28 percent, as shown in  
3 Attachment 1A.

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

13  
14 **10. Q. Why did Staff use the components of XLU as its comparable group?**

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

20  
21 In addition, Staff believes the use of XLU not only removes bias from the  
22 selection of the comparable group, but that it also fosters use of a simple

1 and transparent process that produces consistent reasonable results. Having  
2 more parties understand the process will allow greater participation in the  
3 review. Finally, the Commission used this approach in multiple previous  
4 SEET cases to determine the comparable ROE.

5  
6 **11. Q. If Staff's goal is to remove any bias from selecting a comparable group,**  
7 **why did it remove AES, FirstEnergy, NRG, and SCANA Energy from**  
8 **the calculation?**

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

12  
13 **12. Q. Why did Staff adopt the standard deviation approach in establishing**  
14 **the adder to the ROE?**

15 A. In previous SEET cases (11-4571-EL-UNC and 11-4572-EL-UNC), the  
16 Commission used this approach<sup>1</sup> in establishing the adder to the XLU  
17 comparable group ROE.

18  
19 **13. Q. Does this conclude your testimony?**

20 A. Yes, it does.

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<sup>1</sup> 11-4571-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 8<sup>th</sup> day of May, 2019.

/s/ Thomas W. McNamee

**Thomas W. McNamee**  
Assistant Attorney General

### **Parties of Record:**

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Attachment 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 wre considered outliers					



## Attachment 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%

**This foregoing document was electronically filed with the Public Utilities**

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**Case No(s). 18-0989-EL-UNC**

Summary: Testimony Prefiled Testimony of Joseph P. Buckley with Attachments 1 and 1A electronically filed by Ms. Yvette L Yip on behalf of the Public Utilities Commission of Ohio