

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

2 A. My name is Jonathan J. Borer. My business address is 180 East Broad
3 Street, Columbus, Ohio 43215-3793.

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

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO or
7 Commission) as a Utility Specialist I in the Research and Policy Division of
8 the Rates and Analysis Department. My duties include conducting
9 investigations of assigned phases of rate case applications and other
10 financial audits of public utility companies subject to the jurisdiction of the
11 PUCO.

12
13 3. Q. Would you briefly state your educational background?

14 A. I earned a Bachelor of Science in Accounting and a Bachelor of Science in
15 Management from Purdue University in 2014. In 2017, I attended the
16 Annual Regulatory Studies Program offered by the Institute of Public
17 Utilities as well as the National Association of Regulatory Utility
18 Commissioners (NARUC) Utility Rate School.

19
20 4. Q. Please briefly outline your work experience.

21 A. I have been with the PUCO since November 2016 with my entire time
22 spent in the Rates and Analysis Department. Prior to working at the PUCO,

1 I was employed with Morgan Stanley within the Global Wealth
2 Management Group.

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4 5. Q. Have you previously provided testimony before the PUCO?

5 A. Yes. I have provided testimony in multiple cases before the Commission.

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7 6. Q. What is the purpose of your testimony in this proceeding?

8 A. I will be addressing the aspect of the Staff Review and Recommendation
9 with which Vectren Energy Delivery of Ohio, Inc. (VEDO or Company)
10 does not agree. Specifically, I will be addressing Staff's recommendation to
11 reject VEDO's proposal to recover the incremental return on rate base
12 associated with the amortization of Normalized Excess Deferred Income
13 Taxes (EDIT).

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15 7. Q. Please summarize the Company's proposal to recover the incremental
16 return on rate base.

17 A. In its Application, the Company has proposed to recover the incremental
18 return on rate base associated with the amortization of Normalized EDIT
19 (Incremental Return) to capture the appropriate return that would otherwise
20 be unaccounted for outside of base rates.

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22 8. Q. How do EDIT balances affect a utility's rate base and revenue requirement?

1 A. The unamortized balances of both Normalized and Non-Normalized EDIT
2 are used to offset a utility's rate base, so they function as a reduction to a
3 utility's revenue requirement. All else being equal, this means as EDIT is
4 amortized, rate base increases, effectuating an increase in the utility's
5 revenue requirement proportionate to the utility's approved rate of return.

6

7 9. Q. Describe the Incremental Return component of VEDO's Application.

8 A. In its Application, VEDO has proposed that the Tax Savings Credit Rider
9 (TSCR) include a component to reflect the effect on the revenue
10 requirement attributable to the amortization of Normalized EDIT. Generally
11 speaking, the Incremental Return would be measured by the cumulative
12 after-tax amortization of EDIT multiplied by the Company's pre-tax rate of
13 return. The Incremental Return represents the cumulative effect of the
14 amortization of Normalized EDIT, so as the Normalized EDIT is refunded
15 to customers, the Incremental Return component of Rider TSCR increases
16 every year.

17

18 10. Q. Does Staff recommend that VEDO recognize the Incremental Returns in
19 Rider TSCR?

20 A. No. Staff has consistently held the position that the appropriate mechanisms
21 for the effects of the amortization of Normalized EDIT would either be a

1 base rate case or an existing rider through which the effects of the
2 amortization of EDIT would naturally occur.

3
4 11. Q. Did the Company's recent base distribution rate case (Rate Case)¹ affect its
5 ability to recover the Incremental Return through existing mechanisms?

6 A. The outcome of the Rate Case resulted in the incorporation into base rates
7 as of the date certain of December 31, 2017, assets related to both the
8 Distribution Replacement Rider (DRR) and the Capital Expenditure
9 Program (CEP) Rider. Additionally, both the DRR and CEP riders were set
10 at zero,² and the activity associated with each program beginning January 1,
11 2018 would be incorporated into the revenue requirements for both riders.
12 Given that EDIT is attributable to activity on or before December 31, 2017,
13 the effect of the amortization of EDIT will not naturally occur in the DRR
14 and CEP riders, as the revenue requirement for each rider is based on
15 activity beginning January 1, 2018. Essentially, this means that any EDIT
16 attributable to the DRR or CEP has been incorporated into base rates.

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¹ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Increase in Gas Rates*, Case Nos. 18-298-GA-AIR, et al., Opinion and Order (Aug. 28, 2019).

² Any remaining unrecovered over- or under-recovery variances from activity through December 31, 2017 were to remain in the DRR.

1 12. Q. In Staff's opinion, did the outcome of the Rate Case negatively impact the
2 Company because of the Company's inability to recover the Incremental
3 Return through existing mechanisms?

4 A. No. In the aggregate, Staff finds that the outcome of the Rate Case
5 *positively* impacted the Company. Focusing only on the effects of the
6 Incremental Return is a fallacy of selective attention. Although the
7 Company cannot recover the Incremental Return through existing
8 mechanisms due to the inclusion of the underlying EDIT in base rates
9 rather than the respective riders, Staff avers that the other outcomes of the
10 Rate Case significantly outweigh any potential negative impact that may
11 result from the inability to recover the Incremental Return through existing
12 mechanisms.

13
14 13. Q. What were some of the benefits that the Company received as a result of
15 the Rate Case?

16 A. The benefits the Company received from the Rate Case include, but are not
17 limited to:

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19 1. The DRR rate caps were reset, allowing the Company to recover
20 incremental investment on DRR-related assets from January 1, 2018
21 through December 31, 2023. The rate cap for 2018 was set at \$2.50
22 per residential customer per month, and increases each year, with the

1 rate cap eventually reaching \$13.75 per customer per month in 2023.
2 Additionally, the filing of a rate case was necessary for the Company
3 to request extension of the DRR beyond 2017.³ Consequently, had
4 the Company not filed the Rate Case, the DRR would have ended,
5 rendering the Company unable to recover any of the Incremental
6 Return through the DRR's natural operation.

7
8 2. The creation of the CEP Rider reduced the regulatory lag associated
9 with recovery of CEP expenditures. Prior to the Rate Case, the
10 Company only had authority to defer for *future* recovery costs
11 associated with its CEP program.⁴ This meant that the Company was
12 only able to recover CEP-related expenditures upon filing a base rate
13 case. The outcome of the Rate Case allowed the Company to recover
14 incremental CEP-related expenditures through annual rider filings,
15 significantly reducing the amount of regulatory lag for the CEP
16 recoveries.

17
18 3. The Company's base rates increased by approximately \$22.7
19 million.

³ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Rate Plan for Continuation of Its Distribution Replacement Rider*, Case No. 13-1571-GA-ALT, Stipulation and Recommendation (Jan. 17, 2014) at 5.

⁴ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case Nos. 13-1890-GA-UNC, et al., Finding and Order (Dec. 4, 2013).

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With these benefits of the Rate Case in mind, Staff finds that the timing of the Company's rate case does not warrant a departure from Staff's consistently held position that the Incremental Return only be recovered through existing mechanisms such as a base rate case or riders in which the amortization would naturally occur.

14. Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Testimony of Jonathan J. Borer** 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 9th day of October, 2020.

/s/ Thomas G. Lindgren

Thomas G. Lindgren

Assistant Attorney General

Parties of Record:

Matthew R. Pritchard

(Counsel of Record)
MCNEES WALLACE & NURICK LLC
21 East State Street, 17TH Floor
Columbus, OH 43215
614.469.8000 (telephone)
614.469.4653 (fax)
mpritchard@mcneeslaw.com

Christopher Healey

Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, OH 4215-4213
christopher.healey@occ.ohio.gov

**COUNSEL FOR THE OFFICE OF
THE OHIO CONSUMERS' COUNSEL**

**COUNSEL FOR VECTREN ENERGY
DELIVERY OF OHIO, INC.**

Gregory Price

Patricia Schabo

Attorney Examiners
Legal Department
Public Utilities Commission of Ohio
180 East Broad Street, 12th Floor
Columbus, OH 43215
gregory.price@puco.ohio.gov
patricia.schabo@puco.ohio.gov

ATTORNEY EXAMINERS

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