

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	)	
Dayton Power and Light Company for	)	Case No. 20-1651-EL-AIR
an Increase in Electric Distribution	)	
Rates.	)	

In the Matter of the Application of	)	Case No. 20-1652-EL-AAM
Dayton Power and Light Company to	)	
change accounting methods.	)	

In the Matter of the Application of	)	Case No. 20-1653-EL-ATA
Dayton Power and Light Company for	)	
tariff approval.	)	

**PREFILED TESTIMONY  
OF**

**JOSEPH BUCKLEY  
SUBMITTED ON BEHALF OF THE STAFF OF  
THE PUBLIC UTILITIES COMMISSION OF OHIO  
RATES AND ANALYSIS DEPARTMENT  
REGULATORY SERVICES DIVISION**

**STAFF EX. \_\_\_\_\_**

**January 18, 2022**

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 Street,  
4                   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), as a Utility Specialist III

10   **Academic Background and Professional Experience**

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

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

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

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

1 Midcontinent Independent System Operator, Inc.) Finance Committee as  
2 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 NARUC  
10 and The Training for Utility Management Analyst also sponsored by  
11 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 6. Q. What is the purpose of your testimony?

18 A. I will address the objections to the Staff Report of Investigation (Staff  
19 Report) in this case, related to the rate of return. Specifically, I will address  
20 Objections 6 through 11 of Dayton Power and Light d/b/a AES Ohio (AES  
21 Ohio or Company), Objections 2 and 3 of Industrial Energy Users-Ohio  
22 (IEU-Ohio), Objection C of Kroger, Objections 15 through 20 of the Ohio

1 Consumers' Counsel (OCC), Objection B of the Ohio Manufacturers'  
2 Association Energy Group (OMAEG), and Objections 1 and 2 by One  
3 Energy Enterprises (One Energy).

4  
5 7. Q. In Objection 6, AES Ohio objects to the recommendation in the Staff  
6 Report to reject the Company's recommended cost of common equity of  
7 10.50% in favor of a range of 9.28% to 10.29% because it fails to address  
8 evidence supporting the Company's recommendation. How do you  
9 respond?

10 A. Staff disagrees with AES Ohio's objection. Staff continues to believe that  
11 the ROE range recommended in the Staff Report is reasonable.  
12

13 8. Q. In Objection 7, AES Ohio objects to the proxy group used in the Staff  
14 Report to calculate the Company's cost of common equity, arguing that it is  
15 very constrained, increasing the potential for error and reducing the  
16 reliability of Staff's recommended cost of common equity.

17 In Objection 2, One Energy objects to the Staff Report's selection of  
18 comparative entities for its cost of common equity analysis, arguing that it  
19 is not clear how and why Staff selected the peer group.

20 How do you respond?

21 A. Due to consolidation in the industry, the number of potential comparable  
22 companies has declined over the last few years. The pool of publicly traded

1 electric companies that pay a dividend is down to approximately 37. Also,  
2 the fact that AES Ohio has a below investment grade bond rating shrinks  
3 the pool of comparable companies even further. Staff believes the  
4 comparable companies it used were appropriate and the process for  
5 selecting the companies was sound.  
6

7 9. Q In Objection 8, AES Ohio objects to the application of CAPM in the Staff  
8 Report because it uses a market risk premium from an internet source called  
9 Fairness Finance, which AES Ohio argues does not provide a reliable guide  
10 to investors' expectations and is incomplete. How do you respond?

11 A. While Staff may not have access to many of the subscription services  
12 utilized by the Company and other interveners, Staff believes that Fairness  
13 Finance is a reliable source, and that its results were reasonable.  
14

15 10. Q. In Objections 9 and 10, AES Ohio objects that the Staff Report did not  
16 consider the comparable earnings approach or risk premium approach based  
17 on earned rates of return.

18 In Objections 18 and 19, OCC objects to the Staff Report's sole reliance on  
19 a non-constant growth DCF while ignoring the constant growth DCF results  
20 it had produced, and the use of a purely historical measure of U.S. Gross  
21 National Product of 6.32% for the terminal growth rate used in its non-

1 constant growth DCF when there are multiple sources of projected  
2 economic growth which reflect investors' expectations.

3 How do you respond?

4 A. Staff continues its process of modernizing the rate of return calculation by  
5 studying many different approaches. However, Staff believes it is prudent  
6 to test the different methods over time to see if they produce consistently  
7 reliable results.-Staff continues to default to the methods that it has used in  
8 previous cases that have produced results that Staff continues to believe are  
9 reasonable and have been adopted by the Commission.

10 In addition, Staff has been studying some of the other sources of projected  
11 economic growth and has noted some variability between sources and  
12 would like to study them over time to test the long-term reasonableness of  
13 the projections.

14  
15 11. Q. In Objection 11, AES Ohio objects that the Staff Report did not consider  
16 the implications of the Company's below investment grade bond rating  
17 from S&P Global Ratings because the Company's bond rating implies  
18 greater risks and a higher cost of equity than reflected in the Staff's proxy  
19 group on average. How do you respond?

20 A. Page 21 of the Staff Report states, "To create the comparable companies  
21 Staff selected companies with a Standard & Poor's Bond Rating of BBB+  
22 and below as well as a Value Line financial strength rating of B+." Both

1           these criteria should capture higher risk utilities. While there are not  
2           enough utilities with below investment grade bond ratings to use that metric  
3           exclusively, Staff's analysis nonetheless took into account that added risk.

4  
5   12.   Q.    IEU-Ohio and OCC allege<sup>1</sup> that Staff failed to use a lower risk-free rate  
6           when calculating the capital asset pricing model ("CAPM") cost of  
7           common equity estimate, arguing that Staff's calculated 15-year average of  
8           10-year and 30-year yields, is not based on investor expectations and  
9           ignores the current state of the market. How do you respond?

10       A.    Estimating future movements in interest rates and the overall direction of  
11           the general economy during the pandemic has been challenging. There have  
12           been conflicting forecasts. Staff believes that a somewhat larger sample of  
13           previous interest rates is warranted at this time.

14  
15   13.   Q.    IEU-Ohio, Kroger, and OMAEG object that Staff did not consider factors  
16           that reduced the risk faced by AES Ohio, such as guaranteed recovery from  
17           distribution riders and its status as sole provider of electric distribution  
18           service within its service territory.<sup>2</sup> How do you respond?

19       A.    When selecting comparable companies Staff looks at the overall risk of an  
20           entity. The use of riders by a company is just one factor that shapes the

---

<sup>1</sup>       IEU-Ohio Objection 2; OCC Objection 17.

<sup>2</sup>       IEU-Ohio Objection 3; Kroger Objection C; OMAEG Objection B.

1 overall riskiness. Also, there are unique factors that make an investment in  
2 a utility riskier, for example the increased focus on ESG (Environmental,  
3 Societal, and Governance) investing. Staff does not add basis points for this  
4 occurrence. Instead, Staff believes it is more appropriate to look at the  
5 overall rankings.

6  
7 14. Q. In Objection 15, OCC objects that the Staff Report erred by concluding that  
8 DP&L's capital structure is appropriate without consideration of the proxy  
9 group's book value capital structure or other benchmarks such as the  
10 common equity ratio being awarded to electric utilities around the United  
11 States recently.

12 In Objection 1, One Energy objects that the Company is under leveraged or  
13 receiving an equity premium, and that should result in a lower cost of  
14 common equity.

15 How do you respond?

16 A. Staff attempts to avoid imputing a capital structure unless the actual capital  
17 structure is extremely divergent from the industry averages. Few companies  
18 have the exact same capital structure and if an imputed capital structure is  
19 used it removes the unique nature and risks of an entity.

20  
21 15. Q. In Objection 16, OCC alleges that the Staff Report erred by only relying on  
22 Value Line as a source for beta estimates to use in its CAPM without



1 consideration of other sources as a check on the reasonableness of Value  
2 Line's betas. OCC also alleges Staff's beta estimates are abnormally high,  
3 are being heavily influenced by market volatility experienced in 2020  
4 because of the anomalous event of the pandemic caused by COVID-19, and  
5 do not necessarily capture investor expectations. How do you respond?

6 A. Staff continues to believe that Value Line is a reliable source for beta  
7 estimations. Staff did check the validity of the Value Line estimation with  
8 other sources and believe that the Value Line estimates were and are  
9 reasonable. Also, Staff does not feel comfortable predicting the long-term  
10 consequences of the COVID-19 pandemic on investor expectations.

11  
12 16. Q. In Objection 20, OCC objects that Staff inappropriately increased the ROE  
13 by allowing an adjustment for equity issuance and other costs, arguing that  
14 the Staff Report's recommended rate of return range of 7.05% to 7.59% is  
15 too high and would result in unjust and unreasonable rates for consumers.  
16 Does Staff agree?

17 A. No.

18  
19 17. Q. What are equity issuance costs?

20 A. Issuance costs include expenditures made directly by the company issuing  
21 stock, for the purpose of issuing stock. Some of these expenditures would  
22 be for filing with the SEC, accounting, legal representation, printing, and

1 exchange listing. Issuance costs also include the underwriting spread,  
2 which is not an expenditure for the issuing company. Basically, the  
3 underwriting spread is the difference between the proceeds to the company  
4 and the price paid by the primary purchasers of an issue. Issuance costs are  
5 the difference between the amount paid by the primary purchasers, and the  
6 net proceeds, which is the amount available for investment by the company.  
7

8 18. Q. Why is an adjustment for equity issuance cost necessary?

9 A. The equity cost of issuance is properly spread over the life of the stock  
10 issue. If stock has been issued, an equity adjustment is necessary. It does  
11 not matter what future financing plans have been prepared. The investor  
12 requires a full return if the investor owns the stock. The company issuing  
13 new equity initially receives funds in the amount of the equity issued. The  
14 amount of equity issued less the issuance cost is the amount available to the  
15 company for investment, yet the investor is, as required, paid a return on  
16 the full amount of investment. Therefore, Staff's adjustment to the baseline  
17 cost of equity is reasonable.  
18

19 19. Q. Does this conclude your testimony?

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

## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prefiled Testimony of Joseph Buckley**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via regular U.S. or electronic mail upon the below parties of record, this 18<sup>th</sup> day of January 2022.

/s/ Jodi Bair

**Jodi Bair**

Assistant Attorney General

### PARTIES OF RECORD:

**Jeffrey S. Sharkey** (Counsel of Record)

**D. Jeffrey Ireland**

**Christopher C. Hollon**

FARUKI PLL

110 North Main Street, Suite 1600

Dayton, OH 45402

Telephone: (937) 227-3747

Telecopier: (937) 227-3717

[jsharkey@ficlaw.com](mailto:jsharkey@ficlaw.com)

[djireland@ficlaw.com](mailto:djireland@ficlaw.com)

[chollon@ficlaw.com](mailto:chollon@ficlaw.com)

*Counsel for AES Ohio*

**Michael L. Kurtz**

**Kurt J. Boehm**

**Jody Kyler Cohn**

Boehm, Kurtz & Lowry

36 East Seventh Street, Suite 1510

Cincinnati, OH 45202

[Mkurtz@BKLawfirm.com](mailto:Mkurtz@BKLawfirm.com)

[Kboehm@BKLawfirm.com](mailto:Kboehm@BKLawfirm.com)

[Jkylercohn@BKLawfirm.com](mailto:Jkylercohn@BKLawfirm.com)

*Counsel for Ohio Energy Group*

**Kimberly W. Bojko**

**Jonathan Wygonski**

Carpenter Lipps & Leland LLP

280 North High Street, Suite 1300

Columbus, OH 43215

[bojko@carpenterlipps.com](mailto:bojko@carpenterlipps.com)

[wygonski@carpenterlipps.com](mailto:wygonski@carpenterlipps.com)

*Counsel for The Ohio Manufacturers' Association Energy Group*

**Angela Paul Whitfield**

Carpenter Lipps & Leland LLP

280 North High Street, Suite 1300

Columbus, OH 43215

[paul@carpenterlipps.com](mailto:paul@carpenterlipps.com)

*Counsel for The Kroger Company*

**Christopher Healey**  
**Ambrosia E. Wilson**  
**John Finnigan**  
The Office of the  
Ohio Consumers' Counsel  
65 East State Street, 7th Floor  
Columbus, OH 43215  
[christopher.healey@occ.ohio.gov](mailto:christopher.healey@occ.ohio.gov)  
[ambrosia.wilson@occ.ohio.gov](mailto:ambrosia.wilson@occ.ohio.gov)  
[john.finnigan@occ.ohio.gov](mailto:john.finnigan@occ.ohio.gov)  
*Counsel for The Office of the Ohio  
Consumers' Counsel*

**Matthew R. Pritchard**  
**Rebekah J. Glover**  
**Bryce A. McKenney**  
MCNEES WALLACE & NURICK LLC  
21 East State Street, 17th Floor  
Columbus, OH 43215  
[mpritchard@mcneeslaw.com](mailto:mpritchard@mcneeslaw.com)  
[rglover@mcneeslaw.com](mailto:rglover@mcneeslaw.com)  
[bmckenney@mcneeslaw.com](mailto:bmckenney@mcneeslaw.com)  
*Counsel for Industrial Energy Users-Ohio*

**Robert Dove**  
KEGLER BROWN HILL +  
RITTER CO., L.P.A.  
65 East State Street, Suite 1800  
Columbus, OH 43215-4295  
[rdove@keglerbrown.com](mailto:rdove@keglerbrown.com)  
*Counsel for Ohio Partners for  
Affordable Energy*

**Carrie H. Grundmann**  
SPILMAN THOMAS & BATTLE, PLLC  
110 Oakwood Drive, Suite 500  
Winston-Salem, NC 27103  
[cgrundmann@spilmanlaw.com](mailto:cgrundmann@spilmanlaw.com)

**Stephanie M. Chmiel**  
**Kevin D. Oles**  
Thompson Hine LLP  
41 South High Street, Suite 1700  
Columbus, OH 43215  
[Stephanie.Chmiel@ThompsonHine.com](mailto:Stephanie.Chmiel@ThompsonHine.com)  
[Kevin.Oles@ThompsonHine.com](mailto:Kevin.Oles@ThompsonHine.com)  
*Counsel for the University of Dayton*

**Joseph Olikier**  
**Michael Nugent**  
**Evan Betterton**  
IGS ENERGY  
6100 Emerald Parkway  
Dublin, OH 43016  
[bethany.allen@igs.com](mailto:bethany.allen@igs.com)  
[joe.oliker@igs.com](mailto:joe.oliker@igs.com)  
[michael.nugent@igs.com](mailto:michael.nugent@igs.com)  
[evan.betterton@igs.com](mailto:evan.betterton@igs.com)  
*Counsel for IGS Energy*

**Devin D. Parram**  
**Rachael N. Mains**  
BRICKER & ECKLER LLP  
100 South Third Street  
Columbus, OH 43215-4291  
[dparram@bricker.com](mailto:dparram@bricker.com)  
[rmains@bricker.com](mailto:rmains@bricker.com)  
*Counsel for The Ohio Hospital Association*

**Derrick Price Williamson**  
SPILMAN THOMAS & BATTLE, PLLC  
1100 Bent Creek Boulevard, Suite 101  
Mechanicsburg, PA 17050  
[dwilliamson@spilmanlaw.com](mailto:dwilliamson@spilmanlaw.com)  
*Counsel for Walmart Inc.*

**Drew Romig**  
ARMADA POWER, LLC  
230 West Street, Suite 150  
Columbus, OH 43215  
[dromig@nationwideenergypartners.com](mailto:dromig@nationwideenergypartners.com)  
*Counsel for Nationwide Energy Partners, LLC*

**Matthew W. Warnock**  
**Dylan F. Borchers**  
BRICKER & ECKLER LLP  
100 South Third Street  
Columbus, OH 43215-4291  
[mwarnock@bricker.com](mailto:mwarnock@bricker.com)  
[dborchers@bricker.com](mailto:dborchers@bricker.com)

**Marion H. Little, Jr.**  
**Christopher J. Hogan**  
ZEIGER, TIGGES & LITTLE LLP  
41 South High Street  
3500 Huntington Center  
Columbus, OH 43215  
[little@litohio.com](mailto:little@litohio.com)  
[hogan@litohio.com](mailto:hogan@litohio.com)

**Mark A. Whitt**  
**Lucas A. Fykes**  
WHITT STURTEVANT LLP  
The KeyBank Building  
88 East Broad Street, Suite 1590  
Columbus, OH 43215  
[whitt@whitt-sturtevant.com](mailto:whitt@whitt-sturtevant.com)  
[fykes@whitt-sturtevant.com](mailto:fykes@whitt-sturtevant.com)  
*Counsel for Direct Energy Business LLC  
and Direct Energy Services, LLC*

**Christina Wieg**  
FROST BROWN TODD LLC  
10 West Broad Street, Suite 2300  
Columbus, OH 43215  
[cwieg@fbtlaw.com](mailto:cwieg@fbtlaw.com)

**Darren A. Craig** (Pending Pro Hac Vice)  
**Robert L. Hartley** (Pending Pro Hac Vice)  
FROST BROWN TODD LLC  
201 North Illinois Street, Suite 1900  
P.O. Box 44961  
Indianapolis, IN 46204  
[dcraig@fbtlaw.com](mailto:dcraig@fbtlaw.com)  
[rhartley@fbtlaw.com](mailto:rhartley@fbtlaw.com)  
*Counsel for Nationwide Energy Partners, LLC*

**Kara Herrnstein**  
BRICKER & ECKLER LLP  
100 South Third Street  
Columbus, OH 43215-4291  
[kherrnstein@bricker.com](mailto:kherrnstein@bricker.com)  
*Counsel for ChargePoint, Inc.*

**Katie Johnson Treadway**  
**James Dunn**  
ONE ENERGY ENTERPRISES LLC  
Findlay, OH 45840  
[ktreadway@oneenergyllc.com](mailto:ktreadway@oneenergyllc.com)  
[jdunn@oneenergyllc.com](mailto:jdunn@oneenergyllc.com)  
*Counsel for One Energy Enterprises, LLC*

**N. Trevor Alexander**  
**Kari D. Hehmeyer**  
**Sarah G. Siewe**  
BENESCH FRIEDLANDER COPLAN &  
ARONOFF  
41 South High Street, Suite 2600  
Columbus, OH 43215  
[talexander@beneschlaw.com](mailto:talexander@beneschlaw.com)  
[khehmeyer@beneschlaw.com](mailto:khehmeyer@beneschlaw.com)  
[ssiewe@beneschlaw.com](mailto:ssiewe@beneschlaw.com)  
*Counsel for The City of Dayton*

**Chris Tavenor**  
1145 Chesapeake Avenue, Suite I  
Columbus, OH 43212-3449  
[ctavenor@theOEC.org](mailto:ctavenor@theOEC.org)  
*Counsel for Ohio Environmental Council*

**This foregoing document was electronically filed with the Public Utilities  
Commission of Ohio Docketing Information System on**

**1/18/2022 12:45:55 PM**

**in**

**Case No(s). 20-1651-EL-AIR, 20-1652-EL-AAM, 20-1653-EL-ATA**

Summary: Testimony Prefiled Testimony of Joseph Buckley, Submitted on Behalf of  
the Staff of the Public Utilities Commission of Ohio, Rates and Analysis  
Department, Regulatory Services Division electronically filed by Mrs. Kimberly M.  
Naeder on behalf of PUCO