BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Dayton Power and Light Company for an Increase in Electric Distribution Rates.	)))	Case No. 20-1651-EL-AIR
In the Matter of the Application of Dayton Power and Light Company to change accounting methods.	)))	Case No. 20-1652-EL-AAM
In the Matter of the Application of Dayton Power and Light Company for tariff approval.	))))	Case No. 20-1653-EL-ATA

AMENDED 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

Name and Employer

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

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

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

A. I am employed by the Public Utilities Commission of Ohio (PUCO or Commission), as a Utility Specialist III

Academic Background and Professional Experience

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

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

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

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

Midcontinent Independent System Operator, Inc.) Finance Committee as Vice-Chairman and Chairman. Also, in 2011, I was awarded the professional designation Certified Rate of Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is awarded based upon experience and successful completion of a written examination.

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

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

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

Purpose of Testimony

6. Q. What is the purpose of your testimony?

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

Ohio Consumers' Counsel (OCC), Objection B of the Ohio Manufacturers' Association Energy Group (OMAEG), Objection II of Ohio Partners for Affordable Energy (OPAE), Objection A of Walmart, and Rate of Return Objections 1 and 2 by One Energy Enterprises (One Energy).

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

In Objection A, Walmart also objects to Staff's range for cost of common equity, arguing that it is higher than nationwide averages.

In Objection 21, OCC objects to Staff's rate of return range, arguing that it results in unjust and unreasonable rates.

How do you respond?

A. Staff disagrees with the objections. Staff continues to believe that the ROE range and resulting rate of return range recommended in the Staff Report are reasonable.

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

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

How do you respond?

A. Due to consolidation in the industry, the number of potential comparable companies has declined over the last few years. The pool of publicly traded electric companies that pay a dividend is down to approximately 37. Also, the fact that AES Ohio has a below investment grade bond rating shrinks the pool of comparable companies even further. Staff believes the comparable companies it used were appropriate and the process for selecting the companies was sound.

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

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

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

In Objections 18 and 19, OCC objects to the Staff Report's sole reliance on a non-constant growth DCF while ignoring the constant growth DCF results it had produced, and the use of a purely historical measure of U.S. Gross National Product of 6.32% for the terminal growth rate used in its non-constant growth DCF when there are multiple sources of projected economic growth which reflect investors' expectations.

How do you respond?

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

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

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

A. Page 21 of the Staff Report states, "To create the comparable companies Staff selected companies with a Standard & Poor's Bond Rating of BBB+ and below as well as a Value Line financial strength rating of B+." Both these criteria should capture higher risked utilities. While there are not enough utilities with below investment grade bond ratings to use that metric exclusively, Staff's analysis nonetheless took into account that added risk.

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

A. Estimating future movements in interest rates and the overall direction of the general economy during the pandemic has been challenging. There have

[1] IEU-Ohio Objection 2; OCC Objection 17.

been conflicting forecasts. Staff believes that a somewhat larger sample of previous interest rates is warranted at this time.

13. Q. IEU-Ohio, Kroger, OMAEG, and OPAE object that Staff did not consider factors that reduced the risk faced by AES Ohio, such as guaranteed recovery from distribution riders and its status as sole provider of electric distribution service within its service territory.[2] How do you respond?

A. When selecting comparable companies Staff looks at the overall risk of an entity. The use of riders by a company is just one factor that shapes the overall riskiness. Also, there are unique factors that make an investment in a utility riskier, for example the increased focus on ESG (Environmental, Societal, and Governance) investing. Staff does not add basis points for this occurrence. Instead, Staff believes it is more appropriate to look at the overall rankings.

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

[2] IEU-Ohio Objection 3; Kroger Objections B and C; OMAEG Objection B; OPAE Objection II.

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

How do you respond?

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

15. Q. In Objection 16, OCC alleges that the Staff Report erred by only relying on Value Line as a source for beta estimates to use in its CAPM without consideration of other sources as a check on the reasonableness of Value Line's betas. OCC also alleges Staff's beta estimates are abnormally high, are being heavily influenced by market volatility experienced in 2020 because of the anomalous event of the pandemic caused by COVID-19, and do not necessarily capture investor expectations. How do you respond?

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

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

A. No.

17. Q. What are equity issuance costs?

A. Issuance costs include expenditures made directly by the company issuing stock, for the purpose of issuing stock. Some of these expenditures would be for filing with the SEC, accounting, legal representation, printing, and exchange listing. Issuance costs also include the underwriting spread, which is not an expenditure for the issuing company. Basically, the underwriting spread is the difference between the proceeds to the company and the price paid by the primary purchasers of an issue. Issuance costs are the difference between the amount paid by the primary purchasers, and the net proceeds, which is the amount available for investment by the company.

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

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

19. Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony 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 **Amended 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 18th 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
djireland@ficlaw.com
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@BKLlawfirm.com
Kboehm@BKLlawfirm.com
Jkylercohn@BKLlawfirm.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
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
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
ambrosia.wilson@occ.ohio.gov
john.finnigan@occ.ohio.gov
Counsel for The Office of the Ohio Consumers' Counsel

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

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
rglover@mcneeslaw.com
bmckenney@mcneeslaw.com
Counsel for Industrial Energy Users-Ohio

Joseph Oliker
Michael Nugent
Evan Betterton
IGS ENERGY
6100 Emerald Parkway
Dublin, OH 43016
bethany.allen@igs.com
joe.oliker@igs.com
michael.nugent@igs.com
evan.betterton@igs.com
Counsel for IGS Energy

Robert Dove
KEGLER BROWN HILL +
RITTER CO., L.P.A.
65 East State Street, Suite 1800
Columbus, OH 43215-4295
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

Devin D. Parram
Rachael N. Mains
BRICKER & ECKLER LLP
100 South Third Street
Columbus, OH 43215-4291
dparram@bricker.com
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
Counsel for Walmart Inc.

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
fykes@whitt-sturtevant.com
Counsel for Direct Energy Business LLC and Direct Energy Services, LLC

Drew Romig
ARMADA POWER, LLC
230 West Street, Suite 150
Columbus, OH 43215
dromig@nationwideenergypartners.com
Counsel for Nationwide Energy Partners, LLC

Christina Wieg
FROST BROWN TODD LLC
10 West Broad Street, Suite 2300
Columbus, OH 43215
cwieg@fbtlaw.com

Matthew W. Warnock
Dylan F. Borchers
BRICKER & ECKLER LLP
100 South Third Street
Columbus, OH 43215-4291
mwarnock@bricker.com
dborchers@bricker.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
rhartley@fbtlaw.com
Counsel for Nationwide Energy Partners, LLC

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

Kara Herrnstein
BRICKER & ECKLER LLP
100 South Third Street
Columbus, OH 43215-4291
kherrnstein@bricker.com
Counsel for ChargePoint, Inc.

Katie Johnson Treadway
James Dunn
ONE ENERGY ENTERPRISES LLC
Findlay, OH 45840
ktreadway@oneenergyllc.com
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
khehmeyer@beneschlaw.com
ssiewe@beneschlaw.com
Counsel for The City of Dayton

Chris Tavenor
1145 Chesapeake Avenue, Suite I
Columbus, OH 43212-3449
ctavenor@theOEC.org
Counsel for Ohio Environmental Council