

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the)
Ohio Development Services Agency for)
an Order Approving Adjustments to the) Case No. 17-1377-EL-USF
Universal Service Fund Riders of)
Jurisdictional Ohio Electric Distribution)
Utilities.

DIRECT TESTIMONY OF

JAMES E. ZIOLKOWSKI

ON BEHALF OF

**DUKE ENERGY OHIO, INC., OHIO POWER COMPANY, THE DAYTON
POWER AND LIGHT COMPANY, OHIO EDISON COMPANY, THE
CLEVELAND ELECTRIC ILLUMINATING COMPANY, AND THE TOLEDO
EDISON COMPANY**

August 11, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE	1
II. DISCUSSION	3
III. CONCLUSION	10

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is James E. Ziolkowski, and my business address is 139 East Fourth
3 Street, Cincinnati, Ohio 45202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Business Services LLC (DEBS) as Director Rates
6 & Regulatory Planning. DEBS provides various administrative and other services
7 to Duke Energy Ohio, Inc., (Duke Energy Ohio) and other affiliated companies of
8 Duke Energy Corporation (Duke Energy).

9 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL**
10 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

11 A. I received a Bachelor of Science degree in Mechanical Engineering from the U.S.
12 Naval Academy in 1979 and a Master of Business Administration degree from
13 Miami University in 1988. I am also a licensed Professional Engineer in the state
14 of Ohio. I received certification as a Chartered Industrial Gas Consultant in 1994
15 from the Institute of Gas Technology and the American Gas Association. I have
16 attended the EUCI Cost of Service seminar.

17 After graduating from the Naval Academy, I attended the Naval Nuclear
18 Power School and other follow-on schools. I served as a nuclear-trained officer on
19 various ships in the U.S. Navy through 1986. From 1988 through 1990, I worked
20 for Mobil Oil Corporation as a Marine Marketing Representative in the New York
21 City area.

1 I joined The Cincinnati Gas & Electric Company (now Duke Energy
2 Ohio) in 1990 as a Product Applications Engineer, in which capacity I designed
3 and managed some of Duke Energy Ohio's demand side management programs,
4 including Energy Audits and Interruptible Rates. From 1996 until 1998, I was an
5 Account Engineer and worked with large customers to resolve various service-
6 related issues, particularly in the areas of billing, metering, and demand
7 management. In 1998, I joined the Rate Department, where I focused on rate
8 design and tariff administration. I was significantly involved with the unbundling
9 and design of Duke Energy Ohio's retail electric rates. I was appointed to my
10 current position in January 2014.

11 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR RATES**
12 **& REGULATORY PLANNING.**

13 A. As Director Rates & Regulatory Planning, I am responsible for cost of service
14 studies, tariff administration, billing, and revenue reporting issues in Ohio and
15 Kentucky. I also prepare filings to modify charges and terms in the retail tariffs of
16 both Duke Energy Ohio and Duke Energy Kentucky, Inc. (Duke Energy
17 Kentucky) and I develop rates for new services. During major rate cases, I help
18 with the design of the new base rates. Additionally, I frequently work with Duke
19 Energy Ohio's and Duke Energy Kentucky's customer contact and billing
20 personnel to answer rate-related questions, and to apply the retail tariffs to
21 specific situations. Occasionally, I meet with customers and Company
22 representatives to explain rates or provide rate training. I also prepare reports that
23 are required by regulatory authorities.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
2 **UTILITIES COMMISSION OF OHIO?**

3 A. Yes. Most recently I provided testimony in Case No. 17-32-EL-AIR and 17-1263-
4 EL-SSO.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. The purpose of my testimony is to discuss the reasons why the electric
8 distribution utilities (EDUs) are unable to implement the rate proposal that The
9 Kroger Company (Kroger) is requesting in this proceeding. Further, I will
10 describe why the rate proposal would unfairly shift costs on to other customers
11 without any justifiable cause.

II. DISCUSSION

12 **Q. PLEASE DISCUSS THE CURRENT RATE STRUCTURE THAT**
13 **RECOVERS REVENUE FOR PURPOSES OF PAYING FOR THE**
14 **PERCENTAGE OF INCOME PAYMENT PLAN (PIPP) PROGRAM**
15 **MANAGED BY THE OHIO DEVELOPMENT SERVICES AGENCY**
16 **(ODSA).**

17 A. Duke Energy Ohio's and the other Ohio EDUs' USF riders are structured as a
18 two-step per-kWh rate. As noted by Kroger witness Kevin C. Higgins, the rider is
19 levied against each customer account. The first step or block rate applies to all
20 monthly consumption for the account up to 833,000 kWh. Additional kWh
21 consumption (monthly kWh over 833,000) is charged at the second step rate. As
22 an example, if an account uses 1 million kWh during the billing month, the USF

1 charge is calculated as 833,000 kWh times the first step rate plus 167,000 kWh
2 times the second step rate. ODSA calculates the USF rates for each Ohio EDU
3 such that the second step rate is less than or equal to the first step rate.

4 **Q. PLEASE DESCRIBE THE RATE ADJUSTMENT THAT KROGER HAS**
5 **PROPOSED IN THIS PROCEEDING.**

6 A. Kroger witness Kevin C. Higgins has submitted testimony explaining a rate
7 proposal that would provide for aggregating accounts of a Mercantile Customer's
8 aggregate load and treating such aggregated accounts as one customer for
9 purposes of determining that customer's charge under the USF rider two-tier
10 declining block rates.

11 **Q. HOW WOULD THIS BENEFIT KROGER?**

12 A. By aggregating Kroger's accounts and treating the aggregated accounts as one
13 customer for purposes of calculating the USF rider charge, Kroger's USF charge
14 would be less than the USF charged by applying the USF rates to each account on
15 an individual basis. The charge would be lower because, under the aggregated
16 scenario, more kWh would be billed at the second step rate that is usually lower
17 than the first step rate. According to calculations provided by Kroger in discovery,
18 the total savings to Kroger statewide would be of very little consequence and
19 certainly an amount that does not justify the work that would be required for the
20 EDUs to implement the changes proposed.

21 **Q. DO YOU AGREE WITH KROGER'S PROPOSAL TO AGGREGATE**
22 **ACCOUNTS FOR THE PURPOSE OF CALCULATING THE MONTHLY**
23 **USF CHARGE?**

1 A. No.

2 **Q. PLEASE EXPLAIN.**

3 A. Kroger witness Kevin C. Higgins' proposal is problematic because it violates
4 regulatory principles, shifts USF costs to other customers, and because his
5 proposed billing methodology is not consistent with the billing systems of Duke
6 Energy Ohio and the other Ohio EDUs. The Ohio EDUs cannot easily or
7 inexpensively implement the proposal.

8 **Q. DO YOU HAVE AN UNDERSTANDING OF HOW MR. HIGGINS'**
9 **PROPOSAL REGARDING THE USF RATE CALCULATIONS WILL**
10 **IMPACT THE OTHER OHIO EDUS?**

11 A. Yes. As indicated in the Joint Comments filed by the EDUs in this case, and the
12 fact that the EDUs all join in this testimony, they all share the same concerns
13 consistent with those that I discuss below.

14 **Q. HOW DOES MR. HIGGINS' PROPOSAL VIOLATE REGULATORY**
15 **PRINCIPLES?**

16 A. The proposal violates the principles of fairness and nondiscriminatory rates by
17 creating a sub-set of customers that will be advantaged based on their ability to
18 combine separate individual accounts to take advantage of the second rate block.
19 Mr. Higgins' proposal will also violate the regulatory principles of rate stability
20 and simplicity because, as described later in my testimony, rates could fluctuate
21 dramatically in any given month based upon the number of mercantile customers,
22 number of aggregated accounts associated with each, and their usage. This will

1 result in excessive and unduly burdensome manual billing accommodations and
2 practices.

3 **Q. PLEASE DISCUSS THE PROBLEMS THAT DUKE ENERGY OHIO AND**
4 **THE OTHER OHIO EDU'S WILL EXPERIENCE IN TRYING TO**
5 **IMPLEMENT MR. HIGGINS' PROPOSAL.**

6 A. First, Mr. Higgins' proposal will required substantial manual intervention in the
7 monthly EDU billing process by EDU employees. Second, the aggregation
8 process will require additional Company labor. Third, the EDUs are concerned
9 about problems associated with applying partial payments, especially for those
10 customers that purchase generation from a CRES.

11 **Q. HOW DOES MR. HIGGINS' PROPOSAL SHIFT COSTS TO OTHER**
12 **CUSTOMERS?**

13 A. The two-step USF rate is billed and charged to each account regardless of whether
14 the account is classified as residential, commercial, industrial, transmission
15 voltage, primary voltage, or secondary voltage. However, Mr. Higgins' proposal
16 would, implicitly, shift costs to other customers. That is why he is making the
17 proposal.

18 If the annual USF revenue requirement is known, and if Kroger pays less
19 than they would under the current billing methodology, other customers will pay
20 more. Specifically, as more customers take advantage of the ability to aggregate
21 their accounts such that more are being billed under the second rate block, it will
22 require additional costs to be recovered from the first rate block. This will
23 necessarily shift costs to those customers paying the first block (e.g. residential

1 customers and small business customers). Thus, other customers will subsidize
2 Kroger's savings. The math is simple.

3 **Q. PLEASE DISCUSS SOME OF THE PRACTICAL PROBLEMS THAT**
4 **DUKE ENERGY OHIO AND THE OTHER OHIO EDU'S WOULD**
5 **EXPERIENCE IN TRYING TO IMPLEMENT MR. HIGGINS'**
6 **PROPOSAL.**

7 A. First, Mr. Higgins' proposal would require substantial manual intervention in the
8 monthly EDU billing process by EDU employees. Second, the aggregation
9 process would require additional Company labor. Third, the proposal creates
10 problems associated with applying partial payments, especially for those
11 customers that purchase generation from a CRES.

12 **Q. WHY WOULD MANUAL INTERVENTION IN THE BILLING PROCESS**
13 **BE REQUIRED?**

14 A. Duke Energy Ohio and the other EDUs have spent many millions of dollars over
15 the years to develop computer systems that process the millions of bills that are
16 sent out each year. Duke Energy's Ohio's retail rates are charged on an account
17 basis, and not on an "aggregated account" basis. It is my understanding that the
18 other Ohio EDUs charge on an account basis also. The Company's billing system
19 does much more than calculate and send out bills. It also performs accounting
20 functions, tracks revenue, and reports on the revenue. The system tracks payments
21 for each account each month. It is my understanding that this is also the case for
22 the other Ohio EDUs. The billing system is complex, but is necessary for an EDU
23 with hundreds of thousands or millions of retail customers. Ideally, each month

1 the billing system will automatically handle the functions mentioned above with
2 very little manual intervention by EDU employees. This is the most efficient and
3 least cost way to run the business.

4 Mr. Higgin's "aggregated billing" proposal is not compatible with the
5 billing system. The billing system calculates charges for each account each month
6 based on the monthly kWh billing determinants (i.e., monthly meter readings) for
7 that account. Duke Energy Ohio's billing system has no way to combine or
8 aggregate accounts for billing purposes. It is my understanding that the other Ohio
9 EDUs also do not have this capability. This means that, to implement Mr.
10 Higgins' proposal, Duke Energy Ohio would have to designate additional
11 employees to calculate Kroger's USF charges using a manual process such as an
12 Excel spreadsheet. And each month, Duke Energy Ohio would need to determine
13 what Kroger facilities should be included. Kroger's proposal would also require
14 some sort of ongoing communication between the "aggregated mercantile
15 customers" and the EDUs as well as a manual process to ensure that all associated
16 accounts (including new ones as they come online) are factored into the monthly
17 calculations. If the proposal were applied to many customers, the Ohio EDUs
18 might need to hire employees to process these payments. The billing system is
19 extremely complex, and it is no small task to modify it to handle aggregated
20 billing.

21 Mr. Higgins proposes that the EDU issue credits in arrears and provide
22 credit adjustments via single payments to the registered Mercantile Customer's
23 corporate entity. This would be a costly process that would involve the issuance

1 of checks by the Company's accounts payable department. This cost will be also
2 be subsidized by other rate payers.

3 **Q. IN ADDITION TO THE MANUAL PROCESS YOU DESCRIBED ABOVE,**
4 **WILL THE AGGREGATION PROCESS BE PROBLEMATIC?**

5 A. Yes. Mr. Higgins proposes that Mercantile Customers be required to complete an
6 application process to aggregate their load with each EDU. He states that the
7 deadline for new applicants can be set on September 1, each year. In order to
8 make the process fair for all similarly situated customers, this means that each
9 EDU will need to set up a new process and communicate the process to all
10 potentially eligible customers. Further, it requires the EDU to obtain knowledge
11 of all eligible mercantile customers and maintain updated and ongoing
12 information about their multiple locations, and the creation of a new billing
13 contact for the proposed, combined credit. Implicitly, this requires additional
14 EDU labor resources that drive up costs to serve all customers.

15 **Q. WHAT PROBLEMS DO YOU FORESEE WITH PARTIAL PAYMENTS?**

16 A. Sometimes customers do not pay their full bill for various reasons. Duke Energy
17 Ohio has procedures that it follows to allocate partial payments to the various
18 revenue accounts. Mr. Higgins proposes that bills continue to be issued as they
19 are now, including the USF charges, but a credit in arrears will be issued in the
20 subsequent month. This will be problematic if one or more of the original bills
21 were not paid in full. The customer could receive a credit for a bill that was not
22 paid in the first place. Once again, scenarios such as this will require substantial

1 manual intervention by Company employees, and ultimately the costs will be
2 borne by all ratepayers.

3 **Q. ARE THERE OTHER PROBLEMS WITH ISSUING CREDITS AND**
4 **CHECKS IN ARREARS?**

5 A. Yes. The dollars collected by Duke Energy Ohio each month through Rider USR¹
6 are not classified as Duke Energy Ohio revenues. The Rider USR revenues are not
7 included on the Company's financial statements. Rider USR revenues are "pass
8 through" amounts that are remitted to the ODSA. On the other hand, checks sent
9 to customers impact the Company's bank accounts. Under Mr. Higgins' proposal,
10 the Company would be paying credits against non-Company revenues to reduce
11 customer payments that are "pass through" items to ODSA. The EDUs would
12 need to made whole for the issuance of these credits, which would then
13 presumably be borne by other customers. Additionally, this could have negative
14 cash flow implications for the EDUs. Again, it is my understanding that Mr.
15 Higgins' proposal creates this problem not only for Duke Energy Ohio but also
16 for the other Ohio EDUs as well.

III. CONCLUSION

17 **Q. WHAT IS YOUR OPINION REGARDING MR. HIGGINS' PROPOSAL?**

18 A. The proposal should be rejected. The statewide USF rates are designed under the
19 assumption that they apply on a per-account basis, and not on an aggregated basis.
20 As I previously discussed, aggregated billing of the USF charges will be costly
21 and complex, and the costs will ultimately be paid by other ratepayers. In my

¹ Duke Energy Ohio's USF rider is known as Rider USR. The other EDUs may have different naming conventions.

1 opinion, the goal of the proposal is to reduce Kroger's and other Mercantile
2 Customer's USF costs. Other rate payers will automatically pick up those costs.

3 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

4 **A. Yes.**