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May 4, 2012

Betty McCauley
Chief of Docketing
The Public Utilities Commission of Ohio
180 E. Broad Street, 11th Floor
Columbus, Ohio 43215

Re: In the Matter of the Application of Columbus Southern Power Company and Ohio
Power Company for Authority to Establish a Standard Service Office Pursuant to
§4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan
Case Nos. 11-346-EL-SSO & 11-348-EL-SSO

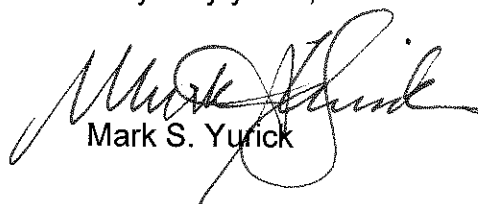
In the Matter of the Application of Columbus Southern Power Company and Ohio
Power Company for Approval of Certain Accounting Authority
Case Nos. 11-349-EL-AAM & 11-350-EL-AAM

Dear Ms. McCauley:

Please file and place on the docket the attached Direct Testimony of Kevin C.
Higgins on behalf of The Kroger Company.

Do not hesitate to contact me with any questions. Thank you for your assistance.

Very truly yours,



Mark S. Yurick

Attachment

31234533.1

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Columbus Southern Power Company and)	
Ohio Power Company for Authority to)	Case No. 11-346-EL-SSO
Establish a Standard Service Offer)	Case No. 11-348-EL-SSO
Pursuant to §4928.143, Ohio Rev. Code,)	
in the Form of an Electric Security Plan)	
)	
In the Matter of the Application of)	
Columbus Southern Power Company and)	Case No. 11-349-EL-AAM
Ohio Power Company for Approval of)	Case No. 11-350-EL-AAM
Certain Accounting Authority)	

DIRECT TESTIMONY OF KEVIN C. HIGGINS

On Behalf of The Kroger Co.

May 4, 2012

1 **DIRECT TESTIMONY OF KEVIN C. HIGGINS**

2

3 **Introduction**

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

5 A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,
6 84111.

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

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
9 is a private consulting firm specializing in economic and policy analysis
10 applicable to energy production, transportation, and consumption.

11 **Q. On whose behalf are you testifying in this proceeding?**

12 A. My testimony is being sponsored by The Kroger Co. ("Kroger"). Kroger
13 is one of the largest grocers in the United States. Kroger has 93 facilities served
14 by AEP-Ohio in the Columbus Southern Power ("CSP") service territory and 40
15 facilities served by AEP-Ohio in the Ohio Power ("OP") service territory that
16 collectively consume over 240 million kWh per year. Kroger is a shopping
17 customer in both service territories.

18 **Q. Please describe your professional experience and qualifications.**

19 A. My academic background is in economics, and I have completed all
20 coursework and field examinations toward a Ph.D. in Economics at the University
21 of Utah. In addition, I have served on the adjunct faculties of both the University
22 of Utah and Westminster College, where I taught undergraduate and graduate
23 courses in economics from 1981 to 1995. I joined Energy Strategies in 1995,

1 where I assist private and public sector clients in the areas of energy-related
2 economic and policy analysis, including evaluation of electric and gas utility rate
3 matters.

4 Prior to joining Energy Strategies, I held policy positions in state and local
5 government. From 1983 to 1990, I was economist, then assistant director, for the
6 Utah Energy Office, where I helped develop and implement state energy policy.
7 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
8 Commission, where I was responsible for development and implementation of a
9 broad spectrum of public policy at the local government level.

10 **Q. Have you ever testified before this Commission?**

11 A. Yes. I previously filed testimony in the prior phase of this ESP 2
12 proceeding. Also in 2011, I testified in the Duke Energy Ohio (“Duke”) Market
13 Rate Offer (“MRO”) proceeding and Electric Security Plan (“ESP”) proceeding,
14 and in 2010, I filed testimony in Duke’s storm damage cost recovery proceeding,
15 Case No. 09-1946-EL-RDR.

16 In 2009, I testified in FirstEnergy’s MRO proceeding, Case No. 09-906-
17 EL-SSO, and in Duke’s distribution rate case, Case No. 08-709-EL-AIR, et al.

18 In 2008, I testified in AEP’s ESP proceeding, Case No. 08-917-EL-SSO,
19 et al; FirstEnergy’s MRO proceeding, Case No. 08-936-EL-SSO; FirstEnergy’s
20 ESP proceeding, Case No. 08-935-EL-SSO; and the FirstEnergy distribution rate
21 case proceeding, Case No. 07-551-EL-AIR, et al.

1 In 2005, I testified in the AEP IGCC cost recovery proceeding, Case No.
2 05-376-EL-UNC, and in 2004, I testified in the FirstEnergy Rate Stabilization
3 Plan proceeding, Case No. 03-2144-EL-ATA.

4 **Q. Have you testified before utility regulatory commissions in other states?**

5 A. Yes. I have testified in approximately 140 proceedings on the subjects of
6 utility rates and regulatory policy before state utility regulators in Alaska,
7 Arizona, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,
8 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New
9 York, North Carolina, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas,
10 Utah, Virginia, Washington, West Virginia, and Wyoming.

11
12 **Overview and Conclusions**

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. My testimony addresses the following aspects of AEP-Ohio's Modified
15 ESP 2 proposal filed March 30, 2012:

16 (1) AEP-Ohio's proposed Retail Stability Rider;

17 (2) AEP-Ohio's proposed two-tier capacity charge for CRES providers
18 serving shopping customers; and

19 (3) AEP-Ohio's Distribution Investment Rider.

20 Relative to the wide scope of the issues addressed in AEP-Ohio's filing,
21 my recommendations are concentrated on a limited number of issues. Absence of
22 comment on my part regarding a particular aspect of AEP-Ohio's filing does not

1 signify support (or opposition) toward the Company's filing with respect to the
2 non-discussed issue.

3 **Q. What are your primary conclusions and recommendations?**

4 A. (1) I recommend that the Commission reject the Retail Stability Rider
5 ("RSR") on the grounds that it would constitute unreasonable and redundant
6 transition cost recovery. If, however, the Commission is persuaded that the RSR
7 is justified then the Commission should make two modifications to the
8 Company's proposal. First, the energy charge proposed by the Company to
9 recover the RSR costs allocated to the "GS-2/3/4, SBS, EHG, EHS, SS" grouping
10 should be replaced by a demand charge to reflect the nature of the costs that
11 would be recovered. Second, if the Commission approves a version of the RSR, it
12 should modify the revenue requirement to set it at the lower end of the reasonable
13 range for ROE.

14 (2) If a two-tiered capacity charge is adopted, as proposed by AEP-Ohio,
15 the Company's proposal should be modified to permit Tier 1 pricing, effective
16 June 1, 2012, for those customers who were already shopping on the date of the
17 Commission's February 23, 2012 Entry in this docket, irrespective of customer
18 class; further, it would be reasonable for those customers who had pending and
19 noticed intentions to switch as of this cutoff date to be next in line for Tier 1
20 pricing, and included in Tier 1 pricing effective January 1, 2013. At the same
21 time, I do not propose to alter AEP-Ohio's proposal to support governmental
22 aggregation initiatives by allowing non-mercantile customers in communities that
23 approved a governmental aggregation program in the November 8, 2011 election

1 or prior elections to be awarded additional energy allotments of Tier 1 priced
2 capacity in 2012, even if the level of Tier 1 set-aside has been exceeded.

3 (3) AEP's proposed Distribution Investment Rider should be rejected.

4 The incremental costs that AEP wishes to recover through this proposed rider are
5 best considered in the overall context of the respective AEP-Ohio service
6 territories' total distribution revenues, expenses, and return on distribution rate
7 base (appropriately separated for each service territory). The best forum for such
8 consideration is a distribution rate case. If, however, the Commission approves a
9 DIR mechanism, the mechanism proposed by the Company should be modified to
10 take proper account of Accumulated Deferred Income Taxes ("ADIT") and the
11 Company's proposal to aggregate its DIR charges across both its service
12 territories should be rejected.

13 **Q. In its Entry on Rehearing in these dockets issued February 23, 2012, the**
14 **Commission rejected the ESP 2 Stipulation filed by AEP-Ohio and other**
15 **parties on September 7, 2011. Did Kroger support the ESP 2 Stipulation?**

16 **A.** Yes. Kroger was signatory to the ESP 2 Stipulation. Previously, Kroger
17 had filed direct testimony objecting to many aspects of ESP 2 filing as initially
18 proposed by AEP-Ohio. Kroger felt that the Stipulation that resulted from the
19 negotiations among the parties was a substantial improvement over the
20 Company's initial filing and supported the Stipulation as a package. In
21 supporting the Stipulation as a package, Kroger recognized that it was a
22 compromise, and as such, included components to which Kroger might otherwise
23 object in isolation.

1 **Q. Given that the Commission has rejected the ESP 2 Stipulation, do you believe**
2 **that Kroger is bound in this phase of the proceeding to continue to support**
3 **the various components of that Stipulation that were not the stated cause of**
4 **the Commission’s rejection?**

5 A. No. As the Stipulation package has been rejected by the Commission,
6 Kroger is not now obligated to stand by concessions that Kroger made in reaching
7 a Stipulation compromise, given that any benefits to Kroger from the Stipulation
8 are at risk in this phase of the proceeding. This situation notwithstanding, I
9 believe the rejected ESP 2 Stipulation provides the parties an informed point of
10 departure for further considering a going-forward ESP 2 resolution, and Kroger
11 will continue to be flexible in seeking a resolution that is fair to all parties.

12
13 **Proposed Retail Stability Rider**

14 **Q. What is the Retail Stability Rider?**

15 A. The Retail Stability Rider (“RSR”) is a new proposal by AEP-Ohio. As
16 described by AEP-Ohio witnesses David M. Roush and William A. Allen, the
17 RSR would be a nonbypassable rider designed to collect a targeted amount of
18 non-fuel generation revenues “similar to the level collected by AEP Ohio in
19 2011.”¹ According to the Company, the RSR is needed in exchange for the
20 integrated package of terms and conditions of the Modified ESP 2 proposal,
21 which includes an offer by AEP-Ohio to provide a defined amount of capacity to
22 CRES providers at a price the Company considers to be “well below [its] cost

¹ Direct testimony of William A. Allen, p. 13.

1 associated with this capacity and the resultant loss of generation revenues.”² As
2 proposed, the RSR would end on May 31, 2015, after which AEP-Ohio will no
3 longer be providing capacity to serve its entire load as a Fixed Resource
4 Requirement (“FRR”) entity.

5 **Q. How is the RSR revenue requirement determined?**

6 A. As explained by Mr. Allen, the proposed RSR revenue requirement is
7 based on the non-fuel generation revenues collected by AEP-Ohio in 2011,
8 adjusted for a return on equity (“ROE”) of 10.5%.

9 **Q. How is the RSR revenue requirement allocated to customer classes?**

10 A. As shown in Exhibit DMR-3, the costs are allocated using a 5 CP allocator
11 to four broad classes: (1) Residential; (2) GS-1, FL; (3) GS-2/3/4, SBS,
12 EHG,EHS, SS; and (4) AL/OL, SL. Because the latter grouping consists
13 exclusively of lighting rate schedules, they are allocated none of the RSR costs
14 using the 5 CP allocator. Further, although the costs are allocated on the basis of
15 demand, AEP-Ohio proposes to collect these costs using an energy charge – even
16 from demand-billed classes.

17 **Q. What is your assessment of the RSR proposal?**

18 A. Although Mr. Allen likens the RSR to generation decoupling, it is really a
19 new incarnation of transition cost recovery, i.e. an attempt by the Company to
20 recover fixed generation costs that are “stranded” due to shopping. My
21 understanding is that transition cost recovery for AEP-Ohio was fully resolved
22 and completed several years ago in Case Nos. 99-1729-EL-ETP and 99-1730-EL-

² Ibid, p. 13.

1 ETP.³ AEP-Ohio ties this new version of transition cost recovery to the
2 purported special circumstances of the capacity provided by AEP-Ohio to CRES
3 providers at a price that the Company argues is below its cost of service.

4 I am not aware of any provisions in SB 3 that provide for a new round of
5 transition cost recovery for historically-incurred fixed generation costs. In light of
6 this apparent absence of express statutory support, and taking into consideration
7 the previous disposition of AEP-Ohio's transition cost recovery by the
8 Commission, I recommend that the Commission reject the RSR on the grounds
9 that it would constitute unreasonable and redundant transition cost recovery.

10 **Q. If, despite your recommendation, the Commission approves a version of the**
11 **RSR, should the Company's version of the RSR be modified?**

12 A. Yes. If the Commission is persuaded by AEP-Ohio that the RSR is
13 justified then the Commission should make two modifications to the Company's
14 proposal.

15 First, the RSR rate design proposed by AEP for demand-billed customers
16 is entirely improper and should be rejected by the Commission. The RSR costs
17 are *allocated* to customer classes on a 5 CP basis, i.e. *demand*, but are *recovered*
18 exclusively through an *energy* charge. This obvious mismatch between cost
19 allocation and revenue recovery results in unwarranted subsidies among
20 customers. Specifically, this subsidization would occur in the "GS-2/3/4, SBS,
21 EHG, EHS, SS" grouping. AEP-Ohio allocates RSR-related costs to this group
22 on the basis of the group's aggregate share of 5 CP demand. AEP-Ohio then

³ Summary of the Commission's Opinion and Order of September 28, 2000 in the Columbus Southern Power Company and Ohio Power Company Electric Transition Plan Cases, esp. at 10-18.

1 calculates a common energy charge for all customers in the group to recover this
2 allocated cost. Under the Company's approach, customers with relatively high
3 load factors would be forced to pay for a portion of the 5 CP costs attributable to
4 lower-load factor customers.

5 It is a fundamental tenet of ratemaking that if costs are *allocated* on the
6 basis of demand, then they should be *recovered* on the same basis, i.e. through a
7 demand charge, to the greatest extent practicable, otherwise costs will be shifted
8 among customers. Whereas for some customer classes, demand charges cannot
9 be levied because the individual customers do not have demand meters, that is not
10 the case for medium and large non-residential customers which are included in the
11 "GS-2/3/4, SBS, EHG, EHS, SS" grouping – the vast majority of the sales to this
12 grouping is to customers with demand meters; thus, there is no valid excuse for
13 failing to align costs and charges for this grouping.

14 **Q. Have you calculated an RSR demand charge for this grouping using the RSR**
15 **revenue requirement proposed by AEP-Ohio?**

16 A. Yes. I calculated an estimated RSR demand charge using the demand
17 billing determinants provided by AEP-Ohio in the most recent distribution rate
18 case for the demand-billed customers in this grouping. My calculation is
19 presented in Exhibit KCH-1. For the demand-billed customers in the grouping,
20 the estimated RSR demand charge is \$0.739 per kW, as compared to \$.0016948
21 per kWh proposed by AEP-Ohio for this same grouping.⁴

22 **Q. What is the second modification the Commission should make to the RSR**
23 **proposal if this concept is approved by the Commission?**

1 A. The Company's proposed RSR revenue requirement is based on an ROE
2 of 10.5% on generation assets. According to Regulatory Research Associates,
3 which tracks utility rate case results, the average ROE awarded to electric utilities
4 in the United States in 2011 was 10.22%. It is not at all clear why a
5 nonbypassable charge such as the RSR – with no clear statutory basis – should be
6 designed to produce a return in the mid-to-upper part of the range of approved
7 ROEs. When AEP-Ohio's generation is favorably priced relative to market, the
8 company is able (and permitted) to earn a return well above average, up to the
9 threshold of a "significantly excessive" return. With the Company's generation
10 now unfavorably priced relative to market, and the Company seeking revenue
11 stability through a nonbypassable charge, symmetry and equity dictate that such a
12 charge, if approved, should target a revenue requirement calculated using an ROE
13 in the *lower* end of the reasonable range. I recommend that if the Commission
14 approves a version of the RSR, it should modify the revenue requirement to set it
15 at the lower end of the reasonable range for ROE.

16
17 **Capacity Charge to CRES Providers for Shopping Customers**

18 **Q. What is AEP proposing with respect to the price of capacity sold to CRES**
19 **providers for shopping customers?**

20 A. As explain by Mr. Allen, AEP-Ohio is proposing a two-tiered capacity
21 pricing mechanism pursuant to which all load of Ohio Power served by a CRES
22 provider would be charged either \$145.79/MW-day (Tier 1) or \$255.00/MW-day
23 (Tier 2). There would be a set-aside of Tier 1 priced capacity for 10,066,000

⁴ Exhibit DMR-3.

1 MWh (approximately 21%) of Ohio Power's retail load in 2012; 14,995,000
2 MWh (approximately 31%) in 2013; and 19,780,000 MWh (approximately 41%)
3 in 2014 continuing through May of 2015.

4 Further, the availability of Tier 1 pricing would be restricted by customer
5 class. Approximately 30% would be reserved for Residential customers, 30%
6 for Commercial customers, and 40% for Industrial customers.

7 **Q. Do you have any recommendations concerning the Company's proposed two-**
8 **tiered capacity pricing mechanism?**

9 A. Yes. If the two-tiered approach is adopted, I recommend modifying the
10 rationing mechanism to make it more efficient. According to Exhibit WAA-1, as
11 of March 1, 2012, the Tier 1 allocation proposed by AEP-Ohio for both the
12 Commercial and Industrial classes was already over-subscribed, while the
13 Residential allocation was significantly under-subscribed – even after taking into
14 consideration pending and noticed intentions to switch.

15 It strikes me as unreasonable and inefficient to require customers who are
16 already shopping to pay Tier 2 prices while Tier 1 pricing remains unutilized. A
17 preferable alternative is to permit Tier 1 pricing for those customers who were
18 already shopping on the date of the Commission's February 23, 2012 Entry,
19 irrespective of class; further, it would be reasonable for those customers who had
20 pending and noticed intentions to switch as of this cutoff date to be next in line for
21 Tier 1 pricing, irrespective of class. Finally, to the extent that class set-asides are
22 considered desirable, such allocations could be applied on a going-forward basis
23 with respect to the remaining Tier 1 pricing.

1 The use of the February 23 cutoff date is consistent with AEP-Ohio's
2 alternative proposal in its Motion dated February 27, 2012, filed in Case No. 10-
3 2929-EL-UNC, subsequent to the Commission's February 23 Entry. In that
4 Motion, the Company indicated that allowing Tier 1 pricing for those customers
5 who were already shopping or had provided a switch request by February 23 was
6 a "perfect compromise," albeit as an interim solution. I agree with the
7 Company's statement in that case that the use of a cut-off date tied to the
8 Commission's February 23, 2012 Entry is a reasonable line of demarcation if a
9 two-tiered capacity pricing regime is adopted.

10 **Q. How does your recommended approach impact the Tier 1 tranches proposed**
11 **by AEP-Ohio?**

12 A. As noted above, the Tier 1 availability proposed by AEP-Ohio
13 corresponds to about 21% of load effective June 1, 2012; 31% of load effective
14 January 1, 2013; and 41% of load effective January 1, 2014 through May 31,
15 2015.

16 If all customers who were shopping on February 23, 2012 are included in
17 Tier 1, as I am recommending, it would require expanding the first tranche from
18 21% to about 26%, based on the March 1, 2012 switching information provided in
19 Exhibit WAA-1. Similarly, if all customers who had switches pending or had
20 given notice on February 23, 2012 were permitted Tier 1 pricing in the second
21 tranche (effective January 1, 2012), as I further recommend, the second tranche
22 would need to be expanded from 31% to about 37%. These modifications are
23 summarized in Exhibit KCH-2.

1 **Q. On page 54 of its Order issued December 14, 2012 conditionally approving**
2 **the ESP 2 Stipulation, the Commission stated that Tier 1 set-asides should**
3 **accommodate the load of any community that approved a governmental**
4 **aggregation program in the November 2011 election, so long as the necessary**
5 **process in completed by December 31, 2012. How does your proposal**
6 **respond to this condition?**

7 A. In its Modified ESP 2 proposal, AEP-Ohio provides that in order to
8 support governmental aggregation initiatives, non-mercantile customers in
9 communities that approved a governmental aggregation program in the November
10 8, 2011 election or prior elections shall be awarded additional energy allotments
11 of Tier 1 priced capacity in 2012 even if the level of Tier 1 set-aside has been
12 exceeded. I do not propose to alter this provision.

13
14 **Distribution Investment Rider**

15 **Q. What has AEP proposed with respect to a Distribution Investment Rider?**

16 A. As explained in Mr. Allen's direct testimony, the Distribution Investment
17 Rider ("DIR") would allow recovery of carrying costs on incremental distribution
18 plant. The carrying charge rate would include elements to allow the Company an
19 opportunity to earn a return on and of plant in service associated with distribution
20 net investment associated with FERC Plant Accounts 360-374, as well as recover
21 associated income taxes, property taxes, and commercial activity taxes.⁵

22 **Q. What justification does AEP offer for the DIR?**

⁵ Direct testimony of William A. Allen, p. 9.

1 A. According to Mr. Allen, the DIR mechanism and associated cost recovery
2 can allow the Company to reduce the frequency of base distribution rate cases.
3 Mr. Allen states that the DIR would benefit customers of AEP-Ohio by providing
4 a streamlined approach to recovery of costs associated with distribution
5 investments which will encourage investment that can improve reliability.

6 **Q. What is your assessment of AEP's proposal to adopt a DIR?**

7 A. I recommend that the proposed DIR be rejected. Investing in and
8 maintaining the distribution system is a fundamental responsibility for a utility
9 distribution company such as AEP-Ohio. In carrying out this responsibility,
10 utilities are entitled to an opportunity to recover their prudently-incurred costs.
11 However, a utility should not be granted a rider mechanism, such as the proposed
12 DIR, simply to do its job. In fact, there are significant hazards with such an
13 approach. Rather than adopting the DIR, the incremental costs that AEP wishes to
14 recover through this proposed rider are best considered in the overall context of
15 the utilities' total distribution revenues, expenses, and return on distribution rate
16 base. The best forum for such consideration is a distribution rate case.

17 **Q. If, despite your recommendation to reject it, the Commission approves a DIR**
18 **mechanism, should the mechanism proposed by AEP-Ohio be modified?**

19 A. Yes. The DIR mechanism proposed by AEP-Ohio is flawed in that it fails
20 to take proper account of Accumulated Deferred Income Taxes ("ADIT"). If a
21 DIR mechanism is approved by the Commission, it should be modified to reflect
22 incremental ADIT as a credit against distribution net plant in the calculation of
23 the DIR charge.

1 **Q. Please explain.**

2 A. As proposed by the Company, and illustrated in Exhibit WAA-5, the DIR
3 rate would be calculated by applying a carrying charge to the change in
4 distribution net plant that has occurred since August 31, 2010 (i.e. distribution
5 plant minus accumulated depreciation). This metric appears intended to track
6 approximate changes in rate base, but fails to do so reasonably because it omits
7 ADIT, which is an important deduction against rate base. All things being equal,
8 ADIT reduces the cost to customers of utility investment in incremental plant.

9 **Q. How does ADIT reduce the cost to customers of utility investment in**
10 **incremental plant?**

11 A. ADIT is booked to take account of the timing difference between
12 accelerated depreciation used by utilities for income tax purposes and book
13 depreciation used for ratemaking. Generally, the tax benefits of accelerated
14 depreciation are not passed through directly to ratepayers; instead, according to
15 the conventions of income tax normalization, the benefit of a utility's
16 accumulated deferred income tax is viewed as a source of zero-cost capital to the
17 utility as part of the ratemaking process. Consequently, ADIT is booked as a
18 credit against rate base, thereby reducing revenue requirements for customers.

19 **Q. What are the implications of excluding ADIT from the calculation of the**
20 **DIR?**

21 A. Failure to recognize ADIT in the DIR calculation would result in an over-
22 recovery of distribution costs from customers. While, by itself, this is sufficient
23 cause to modify AEP-Ohio's proposal, it is important to recognize that the over-

1 recovery of distribution costs would be exacerbated when bonus tax depreciation
2 is taken into account.

3 **Q. What is bonus tax depreciation?**

4 A. Bonus tax depreciation refers to a greatly accelerated tax deduction for
5 depreciation that has been permitted pursuant to several statutes signed into law in
6 recent years to stimulate the economy. For example, bonus tax depreciation was
7 permitted in 2008 and 2009 pursuant to the Economic Stimulus Act of 2008 and
8 the American Recovery and Reinvestment Act of 2009. Generally, these acts
9 permitted a first-year depreciation tax deduction equal to 50 percent of the cost of
10 qualified property. According to the provisions of the American Recovery and
11 Reinvestment Act of 2009, bonus tax depreciation was initially scheduled to end
12 on December 31, 2009.

13 **Q. Was bonus tax depreciation extended?**

14 A. Yes. Bonus tax depreciation was been extended by the passage of two
15 new pieces of legislation. First, on September 27, 2010, the Small Business Jobs
16 Act was signed into law. This act extended 50 percent bonus tax depreciation
17 through December 31, 2010. Then, on December 17, 2010, President Obama
18 signed into law the Tax Relief, Unemployment Insurance and Job Creation Act of
19 2010. This act increased bonus tax depreciation from 50 percent to 100 percent
20 for qualified property acquired and placed into service on or after September 9,
21 2010 through December 31, 2011. In addition, 50 percent bonus tax depreciation
22 was extended from January 1, 2012 through December 31, 2012.

1 **Q. How does bonus tax depreciation normally impact ratemaking for regulated**
2 **utilities?**

3 A. Bonus tax depreciation is a form of accelerated tax depreciation; therefore,
4 it affects rates through the same mechanics as standard accelerated depreciation,
5 i.e., by reducing rate base due to increased ADIT. However, because the tax
6 deduction for bonus depreciation is so large, i.e., 50% to 100% of the cost of the
7 qualifying asset, the impact of bonus tax depreciation on ADIT in the years
8 immediately following the placement of the qualifying plant into service is much
9 more significant than occurs under standard accelerated tax depreciation.
10 Consequently, the beneficial impact on customer rates is much more significant as
11 well.

12 The failure of AEP-Ohio's proposed DIR mechanism to take account of
13 ADIT would unfairly enrich the Company at the expense of customers by
14 depriving customers of the benefits of bonus tax depreciation as generally
15 recognized in utility ratemaking.

16 **Q. If a DIR is approved, should other modifications be made besides**
17 **incorporating the effects of ADIT?**

18 A. Yes. The DIR mechanism that AEP-Ohio is proposing aggregates the
19 incremental distribution investment in both service territories and calculates an
20 aggregated DIR charge.⁶ As such, it appears to be a "back door" attempt to begin
21 to consolidate the rates for distribution service in both territories. There is no
22 good ratemaking or public policy basis for such a treatment. CSP and OP are

⁶ See Exhibit WAA-5.

1 distinct distribution territories with separate rates, which is entirely appropriate
2 considering that the distribution system costs in each territory reflect the
3 underlying embedded costs of providing distribution service to the customers in
4 each territory. It is perfectly reasonable for the cost of providing distribution
5 service to vary among distribution service territories based on the characteristics
6 of the load being served, the geography of the territories being served, including
7 population densities, and the age of the distribution plant. Simply “deeming”
8 incremental costs to be equalized across its territories, as AEP-Ohio is proposing
9 in this case, does not make these costs equal in actual fact.

10 Simply put, AEP-Ohio’s proposal is contrary to the principle of assigning
11 costs on the basis of cost causation. In the normal course of ratemaking, when the
12 costs caused by particular groups of customers cannot readily be segregated from
13 one another, it is necessary to use a reasonable allocation method to allocate cost
14 responsibility among them. However, when costs to a particular group of
15 customers are known with reasonable certainty, it is always preferable to directly
16 assign such costs to the group that is known to cause them rather than construct an
17 allocation scheme. Allocating costs that otherwise can be directly assigned
18 merely takes lucid information and convolutes it.

19 The large preponderance of AEP-Ohio’s distribution costs relate to the
20 recovery of fixed assets that uniquely serve specific geographic territories.
21 Because each service territory had previously been operated as a separate utility,
22 the unique costs of each territory are already known. Therefore, consistent with
23 the fundamental tenets of cost causation, the costs of each respective service

1 territory should continue to be directly assigned to the customers in that territory.

2 If a DIR is approved, AEP-Ohio's proposal to aggregate its DIR charges across

3 both its service territories should be rejected.

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Kevin C. Higgins on behalf of The Kroger Co. was served via electronic mail upon counsel for all parties of record in this case, on this 4th day of May 2012.

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Mark S. Yurick

The Kroger Co.
PUCO Case No. 11-346-EL-SSO

Comparison of AEP-Ohio and Kroger Proposals for Rate Design of the Retail Stability Rider

Calculation of AEP Proposed Retail Stability Rider

Description		<u>Residential</u>	<u>GS-1, FL</u>	<u>GS-2/3/4/, SBS, EHG, EHS, SS</u>	<u>AL/OL, SL</u>	<u>Total</u>
5CP Demand	CSP	2,030	65	2,356	-	
	OPCo	1,856	62	2,983	-	
	Total	3,886	127	5,339	-	9,352
Allocation Percentage		41.55%	1.36%	57.09%	0.00%	
Class Allocation of Rev Requirement		\$39,350,321	\$1,286,024	\$54,063,655	\$0	\$94,700,000
All Metered MWhs	CSP	7,470,811	369,557	13,267,661	98,971	
	OPCo	7,335,378	383,767	18,631,190	125,665	
	Total	14,806,189	753,324	31,898,851	224,636	47,683,000
Proposed RSR Rate \$/kWh		\$0.002658	\$0.0017071	\$0.0016948	\$0.0000000	\$0.0019860
Proposed Collection		\$39,350,409	\$1,285,999	\$54,062,173	\$0	\$94,699,868

Kroger Recommended Method of Calculating the Retail Stability Charge for the Demand Billed Rate Group

Description		<u>GS-2/3/4/, SBS, EHG</u>	<u>Total</u>
5CP Demand	CSP	2,356	
	OPCo	2,983	
	Total	5,339	5,339
Allocation Percentage		57.09%	
Class Allocation of Rev Requirement		\$54,063,655	\$94,700,000
Class Allocation Exclusive of Non-Demand Billed Classes		\$53,103,222	
All Metered kWhs	CSP	30,710	
	OPCo	41,107	
	Total	71,817	71,817
Estimated RSR Rate \$/kW		\$0.7390	\$1.3186374
Proposed Collection		\$53,072,437	\$94,700,000

Data Sources: AEP Exhibit DMR-4 & Schedule E-4, Case No. 11-351-EL-AIR

The Kroger Co.
PUCO Case No. 11-346-EL-SSO

Comparison of AEP-Ohio and Kroger Tier 1 Capacity Allocation Proposals

Load Switching Summary (% of Total AEP Load)

	Switched Load as of Mar 1, 2012	Switched, Pending & Noticed Load as of Mar 1, 2012
Residential	8.43%	9.54%
Commercial	41.44%	48.09%
Industrial	28.10%	49.70%

AEP Proposed Tier 1 Tranches

	2012	2013
AEP Set Aside for Tier 1 Priced Capacity (MWs):	10,066,000	14,995,000
Set Aside for Tier 1 Priced Capacity (% of total load):	21%	31%
Total Connected AEP Load:	47,933,333	48,370,968

Kroger Modification to Tier 1 Tranches Based on Switched Load as of March 1, 2012

	Switched Load as of Mar 1, 2012	Switched, Pending & Noticed Load as of Mar 1, 2012
Shopping Load % of Total:	26%	37%
Total Shopping Load MWs:	12,501,013	17,756,982

Tier 1 Unutilized Capacity Based on Switched, Pending & Noticed Load as of Mar 1, 2012 - per AEP Proposal

	1-Mar-12	2013	2014/2015
	21%	31%	41%
Residential ¹	12.57%	15.57%	18.57%
Commercial	-20.44%	-17.44%	-14.44%
Industrial	-7.10%	-3.10%	0.90%

Tier 1 Unutilized Capacity Based on Switched, Pending & Noticed Load as of Mar 1, 2012 - per Kroger Proposal

	1-Mar-12	2013	2014/2015
	26%	37%	41%
Residential ¹	0.00%	0.00%	1.20%
Commercial	0.00%	0.00%	1.20%
Industrial	0.00%	0.00%	1.60%

¹ Does not include 2012 Governmental Aggregation load that may be accommodated above this cap.

Data Sources: Direct Testimony of William A. Allen, p.7, Table 1 & Exhibit WAA-1

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Case No(s). 11-0346-EL-SSO, 11-0348-EL-SSO, 11-0349-EL-AAM, 11-0350-EL-AAM

Summary: Testimony Direct Testimony of Kevin C. Higgins on behalf of The Kroger Company
electronically filed by Mark Yurick on behalf of The Kroger Company