

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke Energy Ohio, Inc., an Increase in Electric Distribution Rates.)	Case No. 12-1682-EL-AIR
)	
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.)	Case No. 12-1683-EL-ATA
)	
)	
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.)	Case No. 12-1684-EL-AAM
)	

**OBJECTIONS TO THE STAFF REPORT
SUBMITTED BY THE KROGER CO.**

I. Introduction

On June 7, 2012, Duke Energy Ohio, Inc. (Duke) filed a notice of intent to file an application to increase its electric distribution rates, and, on July 9, 2012, filed its application seeking authority to increase its rates with the Public Utilities Commission of Ohio (Commission). The Staff of the Commission filed its Staff Report of Investigation (Staff Report) in the above-captioned proceeding on January 4, 2013. Pursuant to Section 4909.19, Ohio Revised Code, and Rule 4901-1-28, Ohio Administrative Code, The Kroger Company (Kroger) hereby respectfully submits its objections to the Staff Report.

Kroger reserves the right to supplement or modify these objections in the event that the Staff makes additional findings, conclusions, or recommendations with respect

to the Staff Report. Kroger also reserves the right to respond to objections or other issues (either in support or opposition) raised by other parties in these proceedings.

II. Objections

A. Cost-of-Service Study

Kroger objects to the Staff Report's adoption of Duke's Cost-of-Service Study (COSS), failing to acknowledge that Duke's COSS is flawed inasmuch as it does not appropriately recognize the customer-related costs for poles and conductors. The Staff Report appears to accept Duke's claim that the allocations in the COSS are based on cost causation guidelines established in the National Association of Regulatory Utility Commissioners (NARUC) Electric Utility Cost Allocation Manual (NARUC Manual).¹ However, Duke's COSS ignores the NARUC Manual guidelines for classifying poles and conductors.

The NARUC Manual states that a portion of pole and conductor costs should be classified as customer-related. In its COSS, Duke allocates the cost of certain distribution facilities, such as poles and conductors, exclusively on the basis of class demand without considering the significant customer-related component.² This allocation of costs is contrary to the guidelines in the NARUC Manual. As a result of Duke's failure to classify a portion of these costs as customer-related, the COSS under-assigns responsibility based on a number of customers served and over-assigns cost responsibility on the basis of demand. This misclassification of costs unreasonably, and unlawfully, shifts costs to the larger customers served from Duke's distribution system.

¹ Staff Report at 26.

² Duke Application, Vol. 13, Schedule E-3.2a at 2.

Contrary to the Staff Report, the Commission should not accept or rely upon Duke's COSS. Instead, the Commission should require that Duke, in its next distribution rate case proceeding, present a COSS that appropriately recognizes customer-related pole and conductor costs, consistent with the guidelines in the NARUC Manual, sound regulatory policy, and Ohio law.

B. Distribution of Proposed Revenue Increase

Based upon the flawed COSS, Kroger objects to Staff's failure to recognize the customer-related component in its adopted distribution of revenue increase proposal. Staff's rate increase proposals are based on the premise that Duke's COSS has produced reasonable results when adjusted as per the Staff recommendations.³ As noted above, Duke's COSS is inherently flawed because it ignores the customer-related component when allocating costs such as poles and conductors.⁴ Given this flaw in the COSS, it cannot be relied upon to provide a reasonable basis for differentiating between Secondary and Primary rates. Duke's and Staff's revenue distribution proposal relies on an inherently flawed COSS; therefore, the proposed distribution revenue increases recommended in the Staff Report should be rejected.

Kroger recommends that the percentage rate increase for Secondary Distribution (Large) and Primary Distribution be modified to provide a more equitable percentage increase, which would be less of a disparity between the two rate schedules. This recommendation does not affect the rates for Residential customers or any other rate classes.

³ Staff Report at 30.

⁴ Duke Application, Vol. 13, Schedule E-3.2a at 2.

C. Rider FRT

Although the Staff Report opposes the implementation of Duke's new proposed Rider FRT for mass transportation relocation costs inasmuch as the new Rider FRT is poorly designed,⁵ Kroger objects to the Staff Report's failure to specifically reject Option 2, which Duke proposes to charge all customers whose service address is located within the governmental boundaries of the project as a separate line item on their electric bills.⁶ Duke suggests that this could be done on a per customer basis, kWh basis, or a combination of the two.⁷ Duke's proposal to establish a new, undefined rider, which may unreasonably collect costs on a volumetric basis, should be rejected.

⁵ Staff Report at 21-22.

⁶ Duke Application at 3-4; Duke Application, Vol. 2, Wathen Testimony at 11-12.

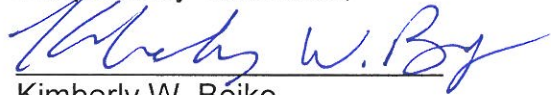
⁷ Duke Application at 3-4.

III. Summary of Major Issues

In accordance with the Attorney Examiner's January 10, 2013 Entry, Kroger hereby sets forth the major issues in this proceeding:

1. The appropriateness of Duke's COSS methodology and the failure of Duke to recognize the customer-related costs for poles and conductors in its COSS.
2. The distribution of any rate increase authorized, and the intra-class allocation of such increases.
3. Duke's proposal to establish a new, undefined Rider FRT, which may unreasonably collect costs on a volumetric basis.

Respectfully Submitted,



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing document was served this 4th day of February, 2013 by electronic mail if available or by regular U.S. mail, postage prepaid, upon the persons listed below.


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Case No(s). 12-1682-EL-AIR, 12-1683-EL-ATA, 12-1684-EL-AAM

Summary: Objection Objections to the Staff Report Submitted by The Kroger Co. electronically filed by Mrs. Kimberly W. Bojko on behalf of The Kroger Co.