

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of the	)	
Dayton Power and Light Company for	)	Case No. 12-426-EL-SSO
Approval of Its Market Rate Offer	)	
	)	
In the Matter of the Application of the	)	
Dayton Power and Light Company for	)	Case No. 12-427-EL-ATA
Approval of Revised Tariffs	)	
	)	
In the Matter of the Application of the	)	
Dayton Power and Light Company for	)	Case No. 12-428-EL-AAM
Approval of Certain Accounting	)	
Authority	)	
	)	
In the Matter of the Application of the	)	
Dayton Power and Light Company for	)	Case No. 12-429-EL-WVR
the Waiver of Certain Commission Rules	)	
	)	
In the Matter of the Application of the	)	
Dayton Power and Light Company to	)	Case No. 12-672-EL-RDR
Establish Tariff Riders	)	

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**DIRECT TESTIMONY OF KEVIN C. HIGGINS**

**On Behalf of The Kroger Co.**

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**March 1, 2013**

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 58 facilities served  
14              by Dayton Power and Light Company ("DP&L") which collectively consume  
15              over 85 million kWh per year. Kroger has been a shopping customer in the  
16              DP&L service territory since 2009.

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

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

1 economic and policy analysis, including evaluation of electric and gas utility rate  
2 matters.

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

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

10 A. Yes. In 2012, I testified in the AEP-Ohio Electric Security Plan ("ESP")  
11 proceeding, Case No. 11-346-EL-SSO. In 2011, I testified in the Duke Market  
12 Rate Offer ("MRO") proceeding, Case No. 10-2586-EL-SSO, and Duke's ESP  
13 proceeding, Case No. 11-3549-EL-SSO, and in 2010, I filed testimony in Duke's  
14 storm damage cost recovery proceeding, Case No. 09-1946-EL-RDR.

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

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

21 In 2005, I testified in AEP-Ohio's IGCC cost recovery proceeding, Case  
22 No. 05-376-EL-UNC, and in 2004, I testified in the FirstEnergy Rate Stabilization  
23 Plan proceeding, Case No. 03-2144-EL-ATA.

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

2 A. Yes. I have testified in approximately 160 proceedings on the subjects of  
3 utility rates and regulatory policy before state utility regulators in Alaska,  
4 Arizona, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,  
5 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New  
6 York, North Carolina, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas,  
7 Utah, Virginia, Washington, West Virginia, and Wyoming. I have also filed  
8 affidavits in proceedings at the Federal Energy Regulatory Commission  
9

10 **Overview and Conclusions**

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

12 A. My testimony addresses the following aspects of DP&L's Revised Electric  
13 Security Plan ("ESP"):

- 14 (1) DP&L's proposed Service Stability Rider;
- 15 (2) DP&L's proposed Switching Tracker; and
- 16 (3) DP&L's proposed Reconciliation Rider.

17 Relative to the wide scope of the issues addressed in DP&L's filing, my  
18 recommendations are concentrated on a limited number of issues. Absence of  
19 comment on my part regarding a particular aspect of DP&L's filing does not  
20 signify support (or opposition) toward the Company's filing with respect to the  
21 non-discussed issue.

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

1 A. (1) As a general proposition, DP&L's proposed ESP fails to provide a  
2 reasonable and coherent rate treatment for customers that have been shopping for  
3 several years. The primary focus of the Company's filing addresses the  
4 incorporation of a competitive pricing component into its SSO rates and the  
5 associated increase in "service stability" revenues the Company believes is  
6 necessary to fund the accompanying SSO rate reduction, as well as to make up for  
7 SSO revenues eroded from the relatively recent surge in shopping that has  
8 occurred in DP&L's service territory. In effect, DP&L proposes to underwrite in  
9 significant part the anticipated reduction in its SSO rates by increasing the non-  
10 bypassable charge to shoppers by 88%. This proposition is fundamentally  
11 unreasonable.

12 (2) In light of the absence of express statutory support for continued  
13 transition charges, and taking into consideration the previous disposition of  
14 DP&L's transition cost recovery by the Commission, it would be appropriate for  
15 the Commission to reject DP&L's proposal to make the SSR non-bypassable on  
16 the grounds that it would constitute unreasonable and redundant transition cost  
17 recovery. At the same time, if the Commission finds that DP&L's proposed SSR  
18 provides a type of "certainty for retail electric service" then I recommend that the  
19 Commission balance several factors in determining the appropriate level of the  
20 charges. Taking into account all of these factors, I recommend that if the  
21 Commission determines that a "service stability" charge is warranted, the charge  
22 be no greater than the current Rate Stabilization Charge, particularly for long-term  
23 shoppers, which for purposes of this discussion, I define as customers who have

1        been shopping continuously for at least three years. DP&L provides no evidence  
2        that these customers are imposing any greater costs on DP&L today than when  
3        the Rate Stabilization Charge was adopted.

4                In addition, I recommend that the Commission establish a sunset date after  
5        which individual shopping customers are no longer subject to the SSR. For this  
6        purpose, I recommend a sunset date of five years measured from the date of the  
7        individual customer's initiation of Competitive Retail Electric Service.

8                (3) I recommend that the Commission reject DP&L's proposal for a  
9        Switching Tracker. The Switching Tracker is an overt attempt at improper  
10       transition cost recovery. Moreover, it creates substantial rate uncertainty for  
11       customers going forward and therefore cannot reasonably be considered to be a  
12       feature of rate stability or rate certainty.

13               (4) I recommend that the Commission reject DP&L's proposal to make its  
14       proposed Reconciliation Rider ("RR") non-bypassable. Each of the existing riders  
15       that the Company proposes to reconcile through the RR is bypassable today.  
16       Shopping customers do not cause these costs to be incurred and, appropriately, are  
17       not obligated to pay for them.

18  
19       **Proposed Service Stability Rider**

20       **Q.     What is the Service Stability Rider?**

21       A.                DP&L proposes the SSR as a non-bypassable rider, designed to collect  
22       \$137.5 million annually, based on the Revised ESP filed December 12, 2012.  
23       The SSR is a de facto extension and expansion of the existing Rate Stabilization

1 Charge, which is currently designed to collect approximately \$73 million per  
2 year.

3 **Q. What is DP&L's justification for the proposed SSR?**

4 A. According to the second revised testimony of Craig L. Jackson, the SSR is  
5 intended to provide the Company an opportunity to earn a reasonable return on  
6 equity, which has declined due to increased customer shopping and decreasing  
7 capacity and wholesale power prices.

8 **Q. What is your assessment of the SSR proposal?**

9 A. As I stated above, the SSR is a de facto extension and expansion of the  
10 Rate Stabilization Charge, which is comprised exclusively of generation costs.<sup>1</sup>  
11 Taking the proposed SSR in combination with the proposed Switching Tracker,  
12 discussed below, it is obvious that DP&L is proposing to require shopping  
13 customers to pay a form of transition cost recovery, i.e. an attempt to recover  
14 generation costs that are "stranded" due to shopping.

15 My understanding is that transition cost recovery for DP&L was fully  
16 resolved and completed several years ago as a result of a Stipulation approved by  
17 the Commission in Case No. 99-16879-EL-ETP. The Commission's approval of  
18 the Stipulation in that docket provided that recovery of transition costs was to be  
19 completed by the end of 2003. In Section VII of that Stipulation, DP&L  
20 specifically agreed not to attempt to recover any transition costs beyond that date.  
21 Making the SSR non-bypassable would improperly extend the recovery of  
22 transition costs beyond that terminal date.

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<sup>1</sup> *In the Matter of the Application of The Dayton Power & Light Company for Relocation of the Rate Stabilization Surcharge*, PUCO Case No. 07-1252-EL-ATA, Finding and Order (April 30, 2008).

1 I am not aware of any provisions in Am. Sub. S.B. 3, which began the  
2 restructuring of the Ohio retail electric market over ten years ago, that provide for  
3 a new round of transition cost recovery for historically-incurred fixed generation  
4 costs. Indeed, Ohio Revised Code § 4928.40, which was enacted as part of that  
5 legislation, appears to expressly limit recovery of transition revenues to no later  
6 than December 31, 2010.

7 In light of the absence of express statutory support for continued transition  
8 charges, and taking into consideration the previous disposition of DP&L's  
9 transition cost recovery by the Commission, it would be appropriate for the  
10 Commission to reject DP&L's proposal to make the SSR non-bypassable on the  
11 grounds that it would constitute unreasonable and redundant transition cost  
12 recovery. Moreover, aside from the absence of statutory support for continued  
13 transition charges, it is unreasonable on its face for shopping customers to be  
14 required to compensate DP&L for generation costs while purchasing their full  
15 generation requirements from a CRES provider.

16 **Q. Are you aware that in AEP-Ohio's ESP proceeding, Case No. 11-346-EL-**  
17 **SSO, et al, the Commission approved AEP-Ohio's proposed retail stability**  
18 **rider ("RSR"), which also assesses a non-bypassable charge on shopping**  
19 **customers to recover generation-related expenses?**

20 A. Yes, I am. In approving AEP-Ohio's RSR, the Commission determined  
21 that AEP-Ohio's RSR "provides certainty for retail electric service, as is  
22 consistent with Section 4928.143(B)(2)(d), Revised Code."<sup>2</sup> The cited section of

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<sup>2</sup> Opinion and Order at 32.



1 the Revised Code states that an electric security plan may provide for or include,  
2 without limitation:

3 (d) Terms, conditions, or charges relating to limitations on customer shopping for  
4 retail electric generation service, bypassability, standby, back-up, or supplemental  
5 power service, default service, carrying costs, amortization periods, and  
6 accounting or deferrals, including future recovery of such deferrals, as would  
7 have the effect of stabilizing or providing certainty regarding retail electric  
8 service.

9 **Q. How should the Commission's finding in the AEP case and Section**  
10 **4928.143(B)(2)(d), Revised Code be taken into consideration when evaluating**  
11 **DP&L's proposed SSR?**

12 A. I believe the Commission should balance several factors here. On the one  
13 hand, the Commission may find that DP&L's proposed SSR provides a type of  
14 "certainty for retail electric service," as the Commission found in the AEP case.  
15 Such a finding, if made, should be balanced against the requirement in Ohio  
16 Revised Code § 4928.40 that transition charges end not later than December 31,  
17 2010. The Commission should give weight to the substantial notice that DP&L  
18 was given by the statute that transition charges would cease and that shopping  
19 customers would not have an obligation to underwrite utility generation costs  
20 indefinitely. The Commission should also give weight to the Stipulation in Case  
21 No. 99-16879-EL-ETP which provided that recovery of transition costs was to be  
22 completed by the end of 2003.

23 Further, the Commission should also take into consideration the going-  
24 forward level of the current non-bypassable Rate Stabilization Charge and the  
25 implications for long-term shopping customers (i.e., customers who have been

1 shopping continuously for at least three years).<sup>3</sup> Through this charge, shopping  
2 customers contribute to DP&L's generation cost while purchasing their full  
3 generation requirements from a CRES provider. The proposed SSR would  
4 effectively increase this charge by 88%, by increasing the revenue recovery from  
5 approximately \$73 million per year under current rates to \$137.5 million. Yet it is  
6 difficult to conceive that by simply continuing to purchase power from CRES  
7 providers, long-term shopping customers could reasonably have incurred – or will  
8 incur in the future – any greater unit-cost responsibility to bear a portion of  
9 DP&L's legacy costs than they are required to bear today. But for the right to  
10 return to (unattractive) SSO rates, these customers receive very little from DP&L  
11 in exchange for the substantial Rate Stabilization Charge they currently pay.  
12 Increasing these charges by 88% under the guise of “service stability” is  
13 fundamentally unreasonable.

14 One of DP&L's revenue concerns is the impact of increased levels of  
15 shopping. But the Commission should also give weight to the fact that the SSO  
16 rates from which customers have been fleeing were negotiated by DP&L in a  
17 stipulation that exempted DP&L from the Significantly Excessive Earnings Test  
18 (“SEET”) for three years (2009-2011).<sup>4</sup> It is well understood that SSO rates are  
19 not based on cost-of-service. In negotiating the current SSO rates, DP&L gained  
20 an opportunity to earn beyond SEET levels for three years, but also faced the risk  
21 that pricing SSO rates too aggressively would result in a loss of sales to the  
22 market. Had market prices increased, DP&L might have gained handsomely from

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<sup>3</sup> Customers who have been shopping for at least three years would have initiated service with a CRES provider within the first year of the Commission's approval of DP&L's previous ESP in June 2009.

1       this arrangement. But as explained in DP&L's filing, capacity and wholesale  
2       power pricing have been declining.<sup>5</sup> Consequently, DP&L's SSO pricing has  
3       become increasingly unattractive for customers, and as a result, shopping  
4       penetration levels have increased markedly. DP&L now seeks to repair the  
5       consequences of its prior pricing decisions by converting its Rate Stabilization  
6       Charge into the SSR – and increasing the level of charges by 88%. The  
7       Commission should be mindful of the economic moral hazard involved in such a  
8       proposition. Notably, the majority of the shopping load has gone to DP&L's  
9       affiliate, DPL Energy Resources ("DPLER"), and thus, has remained within  
10      DP&L's corporate family.<sup>6</sup>

11             Taking into account all of these factors, I recommend that if the  
12      Commission determines that a rate stability charge is warranted, that the charge  
13      be no greater than the current Rate Stabilization Charge, particularly for long-term  
14      shopping customers, as there is no evidence that these customers are imposing  
15      any greater costs on DP&L today than when the Rate Stabilization Charge was  
16      adopted.

17             In addition, I recommend that the Commission establish a sunset date after  
18      which individual shopping customers are no longer subject to the SSR. For this

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<sup>4</sup> Case No. 08-1094-EL-SSO. *Entry nunc pro tunc* dated May 13, 2010.

<sup>5</sup> See for example, Second Revised Testimony of Craig L. Jackson, p. 13, and Second Revised testimony of Aldyn W. Hoekstra, p. 7.

<sup>6</sup> DP&L's Response to ESP RFA 1-10 confirms that during 2011, DPLER accounted for approximately 5,731 million kWh of the total 6,593 million kWh supplied by CRES providers within DP&L's service territory. In 2012, according to AES Corporation's 10-K Filing (2-27-13), DPLER accounted for approximately 6,201 million kWh of the total 8,212 million kWh supplied by CRES providers within DP&L's service territory.

1           purpose, I recommend a sunset date of five years measured from the date of the  
2           individual customer's initiation of Competitive Retail Electric Service.

3   **Q.    Is it reasonable for SSR charges to be sunset at the individual customer**  
4   **level?**

5   A.           Yes. Sunset dates that are applied at the individual customer level are  
6           inherently reasonable. One of the difficulties with the current universal charge  
7           approach is that the "stabilization" charge is the same for both long-term shoppers  
8           (e.g., customers shopping continuously for at least three years) and recent  
9           shoppers, even though the rationale for assessing a charge for legacy costs  
10          diminishes the longer a customer has departed from SSO service. Under the  
11          individual sunset approach, although shopping customers would be subject to five  
12          years of charges for legacy generation costs, it would at least provide a bridge to a  
13          time when the individual shopping customer would no longer be subject to this  
14          effective double charge for generation service. The establishment of such a date  
15          certain for shopping customers is also a form of "rate certainty" and "rate  
16          stability" and is strongly preferable to the open-ended obligation on shoppers that  
17          DP&L appears to advocate.

18   **Q.    How much would a shopping customer pay to DP&L over a five year period**  
19   **at today's Rate Stabilization Charge rates?**

20   A.           For a customer taking service at primary voltage, the customer will have  
21           paid DP&L approximately \$60.13 per kW applied to its average monthly demand  
22           plus 14.34 cents/kWh applied to its average monthly energy usage over a five-  
23           year period. These charges would have been paid to DP&L to help underwrite the

1 costs of DP&L's generation service even though the customer would have  
2 purchased its generation service from a CRES provider over the entire five-year  
3 period.

4 **Q. If a five-year sunset provision is adopted at the individual customer level,**  
5 **approximately what proportion of customer load would be exempt from the**  
6 **SSR in future years?**

7 A. I have summarized historical customer switching data collected by the  
8 Commission in Exhibit KCH-1, page 1. Using this information as a guide, I  
9 estimate that in 2014, no more than 11% of customer load would be exempt from  
10 the SSR.<sup>7</sup> Similarly, at the beginning of 2015 the exemption rate would also be  
11 approximately only 11%, increasing to 43% at the beginning of 2016. These  
12 estimates are presented Exhibit KCH-1, page 2.

13 **Q. Have you taken into account the impact on DP&L's projected return on**  
14 **equity ("ROE") if DP&L's proposed SSR is rejected and instead the current**  
15 **Rate Stabilization Charge is extended along with your recommended five-**  
16 **year sunset provision?**

17 A. I have examined the ROE projections proffered by DP&L witness William  
18 J. Chambers in his confidential Second Revised Exhibits WJC-1 through WJC-5.  
19 Without endorsing necessarily each of Mr. Chambers' assumptions, I note that  
20 Second Revised Exhibit WJC-2 forecasts ROEs under the assumption that  
21 DP&L's proposed SSR is adopted (with no additional switching) and Second  
22 Revised Exhibit WJC-4 forecasts ROEs under the assumption that DP&L's

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<sup>7</sup> Although shopping load was 18.7% at the end of 2008, by the end of 2009 it had fallen to 11%; thus, the continuously shopping load by the beginning of 2014 would be no greater than 11%.

1 proposed SSR is rejected (with no additional switching). The current Rate  
2 Stabilization Charge including the recommended five-year sunset provision  
3 produces revenues that are approximately 47% to 52% of DP&L's proposed SSR  
4 in 2013 and 2014. Consequently, using Mr. Chambers' assumptions, my  
5 recommended alternative to DP&L's proposal should produce ROEs for those  
6 two years that are approximately midway between the ROEs projected by Mr.  
7 Chambers in Second Revised Exhibit WJC-2 and Second Revised Exhibit WJC-4.

8 In my opinion, these projected ROEs are reasonable in light of the  
9 circumstances, taking into account the fact that DP&L has had thirteen years'  
10 notice that retail competition was coming, that shopping customers have and will  
11 continue to make material contributions to DP&L's generation costs some thirteen  
12 years since the introduction of retail competition in Ohio, and that the (current)  
13 SSO prices negotiated by DP&L (in combination with the Rate Stabilization  
14 Charge) provided the Company with double-digit ROEs in recent years, but yet  
15 ultimately proved to be uncompetitive. Moreover, pursuant to the ESP filing,  
16 DP&L is winding down its days as a regulated generation service provider. The  
17 Company's need to attract capital on behalf of retail customers going forward  
18 should be directed primarily to the provision of distribution service.

19 **Q. You limited your discussion of projected ROE impacts to 2013 and 2014.**  
20 **What about subsequent years?**

21 A. Projecting ROEs beyond 2014 becomes increasingly speculative. Net  
22 operating income forecasts are driven by projected differentials in the change in  
23 revenues and expenses that may or may not come to fruition. Such projections

1 should not be used to “lock in” a bad deal nor should they be used to prevent  
2 long-term shopping customers from ever extricating themselves from the burden  
3 of having to pay twice for generation: once to their CRES provider and a second  
4 time to DP&L.

5  
6 **Switching Tracker**

7 **Q. What is the Switching Tracker?**

8 A. As explained in the second revised testimony of Craig L. Jackson,  
9 DP&L’s proposed Switching Tracker would defer for later recovery the difference  
10 between the level of shopping as of August 30, 2012 (62%) and the actual level of  
11 shopping. The tracker would be calculated monthly by multiplying the  
12 incremental switching proportion by the distribution load, and applying a \$/MWh  
13 cost based on the difference between the Blended SSO rate and the CB rate in  
14 effect. The monthly tracker balance would be added to a regulatory asset, which  
15 would accrue carrying charges at DP&L’s cost of long-term debt. DP&L  
16 proposes the Switching Tracker balance be recovered from all customers  
17 beginning January 1, 2014.

18 **Q. What is your assessment of the Switching Tracker proposal?**

19 A. The Switching Tracker is an overt attempt at improper transition cost  
20 recovery. Moreover, it creates substantial rate uncertainty for customers going  
21 forward and therefore cannot reasonably be considered to be a feature of rate  
22 stability or rate certainty. Significantly, in approving AEP-Ohio’s RSR the  
23 Commission rejected AEP-Ohio’s decoupling proposal, stating:

1 Moreover, we find that the certainty and stability the RSR provides would be all  
2 but erased by its design as a decoupling mechanism. We agree with OCC that the  
3 ability for AEP-Ohio to decouple the RSR would cause financial uncertainty, as  
4 truing up or down each year will create customer confusion in their rates.  
5 [Opinion and Order at 32]

6 DP&L's Switching Tracker is similarly flawed. As such, it should be  
7 rejected by the Commission. In the event the Commission does not reject the  
8 Switching Tracker, I recommend that it be made bypassable by long-term  
9 shopping customers. DP&L is not incurring generation costs on these customers'  
10 behalf today, and it is fundamentally unreasonable to charge existing shoppers for  
11 lost revenues from customers who switch to competitive suppliers in the future.  
12

### 13 **Proposed Reconciliation Rider**

#### 14 **Q. What is the proposed Reconciliation Rider?**

15 A. As described in the direct testimony of Emily W. Raab, the proposed  
16 Reconciliation Rider ("RR") is intended to be a non-bypassable charge that would  
17 include any deferred balance that exceeds 10% of the base recovery rate  
18 associated with any of the following true-up riders: the FUEL Rider, the RPM  
19 Rider, TCRR-B, AER and the proposed Competitive Bid True-up (CBT) Rider.  
20 In addition, the RR would include the costs of administering the Competitive  
21 Bidding Process, and the costs of certain "competitive retail enhancements".

#### 22 **Q. What is your assessment of the RR proposal?**

23 A. DP&L's proposal to make the RR non-bypassable should be rejected.  
24 Each of the existing riders that the Company proposes to reconcile through the  
25 RR is bypassable today. The CBT Rider is also proposed to be bypassable.  
26 Shopping customers do not cause these costs to be incurred and, appropriately, are



1 not obligated to pay for them. DP&L has attempted to confound this issue by  
2 arguing that if the balance of these riders becomes “excessive”, it would further  
3 improve the economics of shopping, resulting in additional switching. This leads  
4 to the Company’s policy recommendation that to prevent this occurrence,  
5 shopping customers should be assigned cost responsibility for these currently  
6 bypassable riders if the deferral balance exceeds 10%. This is, of course, another  
7 incarnation of the (improper and unreasonable) transition cost claim discussed  
8 earlier in my testimony.

9 DP&L attempts to buttress its argument by depicting shoppers as escaping  
10 costs incurred on their behalf; the Company’s argument glosses over the  
11 circumstances of customers such as Kroger who have been shopping for several  
12 years, and would be saddled with the reconciliation of otherwise bypassable costs  
13 that indeed were not incurred on their behalf. DP&L’s proposal results in an  
14 unreasonable assignment of cost responsibility to these customers. In short, the  
15 proposal to make the RR non-bypassable is little more than an attempt to levy an  
16 improper tax on shopping customers that should be rejected by the Commission.

17 To the extent that DP&L incurs legitimate administrative costs to provide  
18 bona fide “competitive retail enhancements” that directly benefit shopping  
19 customers, these costs can properly be segregated and charged to shopping  
20 customers. There is no good ratemaking reason to include these costs in the  
21 proposed RR.

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

23 **A.** Yes, it does.

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Testimony of Kevin C. Higgins was served this 1<sup>st</sup> day of March, 2013, via electronic mail upon the following:

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Zachary D. Kravitz

Summary of Switching Rates from Dayton Power and Light's Standard Generation Service to Competitive  
Retail Electric Service Based on Year-End Number of Customers <sup>1</sup>

Dayton Power and Light Service Area	2008	2009	2010	2011	2012
Switch Rate (% of Customers) <sup>2</sup>	0.15%	0.18%	1.91%	12.56%	25.06% <sup>3</sup>

Summary of Switching Rates from Dayton Power and Light's Standard Generation Service to Competitive  
Retail Electric Service Based on Year-End Sales (MWhs) <sup>1</sup>

Dayton Power and Light Service Area	2008	2009	2010	2011	2012
Switch Rate (% of MWhs) <sup>4</sup>	18.71%	11.05%	43.24%	51.15%	60.44% <sup>3</sup>

<sup>1</sup> Data Source: <http://www.puco.ohio.gov/puco/index.cfm/industry-information/statistical-reports/electric-customer-choice-switch-rates/>

<sup>2</sup> Includes residential, commercial, industrial and other customers

<sup>3</sup> Figure represents switch rate as of Sept 30, 2012

<sup>4</sup> Includes sales to residential, commercial, industrial and other customers

Upper Range Estimate of SSR Exemption Rates Based on Beginning of Year Sales (MWhs)<sup>1</sup>

Dayton Power and Light Service Area	2014	2015	2016	2017
Exempt Rate (% of MWhs) <sup>2</sup>	11.05%	11.05%	43.24%	51.15%

<sup>1</sup> Data Source: <http://www.puco.chio.gov/puco/index.cfm/industry-information/statistical-reports/electric-customer-choice-switch-rates/> & Exhibit KCH-1.p. 1

<sup>2</sup> Includes sales to residential, commercial, industrial and other customers

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Summary: Testimony Direct Testimony of Kevin C. Higgins on Behalf of The Kroger Co.  
electronically filed by Mr. Zachary D. Kravitz on behalf of The Kroger Co.