

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of The)
Dayton Power and Light Company for) Case No. 12-3062-EL-RDR
Authority to Recover Certain Storm-)
Related Service Restoration Costs)

In the Matter of the Application of The)
Dayton Power and Light Company for) Case No. 12-3266-EL-AAM
Approval of Certain Accounting)
Authority)

DIRECT TESTIMONY OF KEVIN C. HIGGINS

On Behalf of The Kroger Co.

January 31, 2014

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

2 **Introduction**

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

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

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

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

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

11 A. My testimony is being sponsored by The Kroger Co. ("Kroger"). Kroger
12 is one of the largest grocers in the United States. Kroger has 58 facilities served
13 by Dayton Power and Light Company ("DP&L") which collectively consume
14 over 85 million kWh per year. Kroger has been a shopping customer in the
15 DP&L service territory since 2009.

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

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

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

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

8 A. Yes. In 2013, I testified in Dayton Power & Light Company's ("DP&L")
9 Electric Security Plan ("ESP") proceeding, Case No. 12-426-EL-SSO, et al. and
10 in Duke Energy Ohio's ("Duke") capacity charge proceeding¹, Case No. 12-2400-
11 EL-UNC, et al. In 2012, I testified in the AEP-Ohio ESP proceeding, Case No.
12 11-346-EL-SSO.

13 In 2011, I testified in the Duke Market Rate Offer ("MRO") proceeding,
14 Case No. 10-2586-EL-SSO, and Duke's ESP proceeding, Case No. 11-3549-EL-
15 SSO, and in 2010, I filed testimony in Duke's storm damage cost recovery
16 proceeding, Case No. 09-1946-EL-RDR.

17 In 2009, I testified in the DP&L ESP proceeding, Case No. 08-1094-EL-
18 SSO, in FirstEnergy's MRO proceeding, Case No. 09-906-EL-SSO, and in
19 Duke's distribution rate case, Case No. 08-709-EL-AIR, et al.

20 In 2008, I testified in AEP-Ohio's ESP proceeding, Case No. 08-917-EL-
21 SSO, et al; FirstEnergy's MRO proceeding, Case No. 08-936-EL-SSO;

¹ "In the Matter of the Application of Duke Energy Ohio, Inc., for the Establishment of a Charge Pursuant to Revised Code Section 4909.18."

1 FirstEnergy's ESP proceeding, Case No. 08-935-EL-SSO; and the FirstEnergy
2 distribution rate case proceeding, Case No. 07-551-EL-AIR, et al.

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

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

7 A. Yes. I have testified in approximately 175 proceedings on the subjects of
8 utility rates and regulatory policy before state utility regulators in Alaska,
9 Arizona, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas,
10 Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New
11 York, North Carolina, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas,
12 Utah, Virginia, Washington, West Virginia, and Wyoming. I have also filed
13 affidavits in proceedings at the Federal Energy Regulatory Commission

14 **Overview and Conclusions**

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

16 A. My testimony addresses the following aspects of DP&L's proposed Storm
17 Cost Recovery Rider ("SCRR"):

18 (1) Limiting recoverable O&M expenses to those exceeding a baseline level of
19 storm O&M expenses.

20 (2) The recovery mechanism for the SCRR.

21 **Q. Please summarize your recommendations to the Commission.**

22 A. I recommend that, if the Commission approves a storm cost recovery rider
23 for DP&L, recoverable O&M expenses should be limited to those exceeding the
24 three-year average of major storm O&M expenses. I also support adoption of

1 Staff's proposed rate design for the SCRR, to the extent the allocation and rate
2 design remain consistent with the recovery mechanism agreed to in the Joint
3 Stipulation filed December 6, 2013 in AEP-Ohio's Storm Damage Recovery
4 Rider proceeding (Case No. 12-3255-EL-RDR). Applying the AEP Stipulation
5 approach to this case, SCRR costs would be allocated among residential and non-
6 residential customers on the basis of base distribution revenues, and recovered via
7 a fixed monthly charge applicable to each customer category (residential and non-
8 residential).

9 If Staff's proposed approach is not adopted by the Commission, then I
10 recommend adoption of one of the proposals in Kroger's initial comments in this
11 docket, in which Kroger recommended redesigning the rider as an equal
12 percentage rider, or incorporating a demand charge component for the Secondary
13 Electric Distribution Service tariff, to avoid the intra-class cost shifting that would
14 result from a kWh charge for this tariff.

15 **Q. What has DP&L proposed regarding the establishment of a storm cost**
16 **recovery rider in this case?**

17 A. As explained in its application filed December 21, DP&L is seeking
18 authority to recover O&M expenses for all major event storms in 2011 and 2012,
19 as well as certain 2008 storm O&M expenses. In addition, DP&L is requesting
20 recovery of capital expenditures related to Hurricane Ike in 2008, and major
21 storms in 2011 and 2012. DP&L is proposing to implement an SCRR to recover
22 all major storm costs going forward, and is requesting the Commission grant
23 accounting authority to defer O&M costs until they are recovered through the
24 rider.

1 **Q. What is DP&L's requested SCRR revenue requirement?**

2 A. According to Schedule C-1 accompanying DP&L's application, the
3 Company designed the initial SCRR to collect \$29.7 million in historical storm
4 O&M costs plus historically-accrued carrying charges over three years. In
5 addition, the rider is proposed to collect the annual return on rate base for storm-
6 related capital expenditures, and associated depreciation expense and property
7 taxes. As presented in Schedule B-1 of the application, DP&L calculated an
8 annual rider revenue requirement of \$22.3 million in the first year, \$21.7 million
9 in the second year, and \$20.6 million in the third year. According to the
10 supplemental testimony of Bryce W. Nickel, the Company acknowledges that
11 certain adjustments recommended in Staff's Audit Report are reasonable, but I am
12 not aware of revisions to Schedule B-1 or the proposed tariff filed by DP&L
13 subsequent to its application.

14 **Q. Has DP&L reduced its requested O&M expenses by a baseline level of storm
15 O&M expenses?**

16 A. DP&L has reduced its requested O&M expense recovery for 2008 storms,
17 including Hurricane Ike, by a baseline purported to represent the three-year
18 average of service restoration O&M expenses for storms. This treatment is
19 consistent with the Commission's January 14, 2009 order in Case No. 08-1332-
20 EL-AAM, which approved DP&L's application to defer O&M expenses
21 associated with Hurricane Ike which exceeded the three-year average O&M
22 expenses for major storms. However, DP&L has not reduced its requested O&M
23 expenses incurred in 2011 or 2012 by a baseline level of storm O&M expenses.

1 **Q. Do you believe that O&M costs recoverable through the SCRR should be**
2 **limited to those exceeding the three-year-average of storm O&M expenses?**

3 A. Yes, consistent with Kroger's comments filed June 17, 2013 in this
4 docket, as well as the comments of Staff and the OCC, I believe that any O&M
5 costs approved for recovery in this proceeding should be reduced by the three-
6 year average of O&M expenses associated with major storms. To the extent that
7 the Commission approves DP&L's request to defer major storm O&M costs
8 going forward, for subsequent recovery through the SCRR, I recommend that
9 annual deferrals should also be reduced by the three-year average of major storm
10 O&M expenses.

11 This approach is consistent with the Commission's January 14, 2009 order
12 in Case No. 08-1332-EL-AAM, as well as the Commission's December 19, 2012
13 order in Case No. 12-2281-EL-AAM, which authorized DP&L's deferral of O&M
14 expenses associated with the June 2012 windstorm, after reducing the balance by
15 the three-year average of O&M expenses for major storms. The Commission's
16 February 13, 2013 Entry on Rehearing in the latter docket found "that allowing
17 DP&L to recover the full amount could allow for DP&L to engage in double-
18 recovery for the O&M expenses, first from base distribution rates and second
19 from this proceeding."²

20 **Q. What has DP&L proposed regarding the allocation and design of the SCRR?**

21 A. In its December 21, 2012 filing, DP&L proposed to allocate the cost of the
22 SCRR to customer classes based on annual distribution revenues (minus customer
23 charge revenues), based on data for the twelve months ended September 2012.

² Commission Entry on Hearing, February 13, 2013, Finding (7).

1 The Company designed the rider as a demand (kW) charge for the Primary and
2 Primary Substation tariff classes, and as an energy (kWh) charge for all other
3 classes.

4 **Q. What has Kroger previously recommended regarding the design of the**
5 **SCRR?**

6 A. Kroger's initial comments in this docket recommended redesigning the
7 rider as an equal percentage rider, or incorporating a demand charge component
8 for the Secondary Electric Distribution Service tariff, to avoid the intra-class cost
9 shifting that would result from a kWh charge for this tariff. Kroger also stated in
10 reply comments filed July 1, 2013 that Staff's recommended rate design
11 consisting of a fixed rate per customer per month was also a reasonable
12 alternative.

13 **Q. Does DP&L oppose Staff's or Kroger's recommended rate designs?**

14 A. No. In reply comments filed July 1, 2013 (p. 27), DP&L stated that it
15 does not oppose the rate designs proposed by Staff or Kroger.

16 **Q. What is your recommendation at this time regarding the allocation and**
17 **design of the SCRR?**

18 A. Consistent with Kroger's reply comments in this case, I recommend
19 adoption of the approach advocated by Staff in its comments, to the extent the
20 allocation and rate design remain consistent with the recovery mechanism agreed
21 to in the Joint Stipulation filed December 6, 2013 in AEP-Ohio's Storm Damage
22 Recovery Rider proceeding (Case No. 12-3255-EL-RDR), to which Kroger is a
23 signatory. Applying the AEP Stipulation approach to this case, SCRR costs
24 would be allocated among residential and non-residential customers on the basis

1 of base distribution revenues, and recovered via a fixed monthly charge applicable
2 to each customer category (residential and non-residential).

3 **Q. Does Kroger object if an exception is made to the rate design of DP&L's**
4 **SCRR applicable to residential customers?**

5 A. No. While Kroger agrees with Staff's basic approach, Kroger would not
6 object to recovery through a kWh charge for the limited purpose of residential
7 rate design.

8 **Q. If Staff's proposed approach to rate design is not adopted by the**
9 **Commission, do you have an alternative recommendation?**

10 A. Yes. If Staff's proposed approach is not adopted by the Commission, then
11 I recommend adoption of one of the proposals in Kroger's initial comments in this
12 docket, in which Kroger recommended redesigning the rider as an equal
13 percentage rider, or incorporating a demand charge component for the Secondary
14 Electric Distribution Service tariff, to avoid the intra-class cost shifting that would
15 result from a kWh charge for this tariff.

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

17 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served this 31st day of January,

2014 by electronic mail upon the following:

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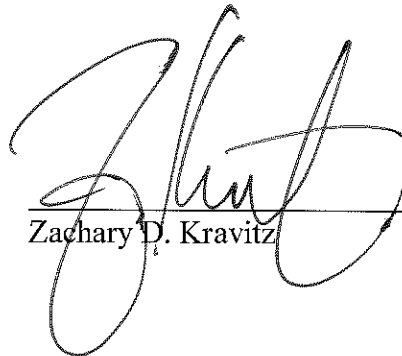
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Summary: Testimony of Kevin Higgins on Behalf of The Kroger Co. electronically filed by Mark Yurick on behalf of The Kroger Company