BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service Restoration Costs	))))	Case No. 12-3062-EL-RDR
In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority	)))	Case No. 12-3266-EL-AAM

DIRECT TESTIMONY OF KEVIN C. HIGGINS

On Behalf of The Kroger Co.

January 31, 2014

DIRECT TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

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

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

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

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

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

Q. Please describe your professional experience and qualifications.

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

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

Q. Have you ever testified before this Commission?

A. Yes. In 2013, I testified in Dayton Power & Light Company's ("DP&L") Electric Security Plan ("ESP") proceeding, Case No. 12-426-EL-SSO, et al. and in Duke Energy Ohio's ("Duke") capacity charge proceeding[1], Case No. 12-2400-EL-UNC, et al. In 2012, I testified in the AEP-Ohio ESP proceeding, Case No. 11-346-EL-SSO.

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

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

In 2008, I testified in AEP-Ohio's ESP proceeding, Case No. 08-917-EL-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."

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

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

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

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

<u>Overview and Conclusions</u>

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

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

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

(2) The recovery mechanism for the SCRR.

Q. Please summarize your recommendations to the Commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Consistent with Kroger's reply comments in this case, I recommend adoption of the approach advocated by Staff in its comments, to the extent the allocation and rate design remain consistent with the recovery mechanism agreed to in the Joint Stipulation filed December 6, 2013 in AEP-Ohio's Storm Damage Recovery Rider proceeding (Case No. 12-3255-EL-RDR), to which Kroger is a signatory. Applying the AEP Stipulation approach to this case, SCRR costs would be allocated among residential and non-residential customers on the basis of base distribution revenues, and recovered via a fixed monthly charge applicable to each customer category (residential and non-residential).

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

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

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

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

Q. Does this conclude your direct testimony?

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:

Ryan O'Rourke
Attorney General's Office
Public Utilities Commission of Ohio
180 East Broad Street, 6th Floor
Columbus, OH 43215
ryan.orourke@puc.state.oh.us

Melissa R. Yost
Larry S. Sauer
Michael J. Schuler
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215
yost@occ.state.oh.us
sauer@occ.state.oh.us
schuler@occ.state.oh.us

Judi L. Sobecki
Randall V. Griffin
The Dayton Power and Light Company
1065 Woodman Drive
Dayton, Ohio 45432
judi.sobecki@dplinc.com
randall.griffin@dplinc.com

Charles J. Faruki
Jeffrey S. Sharkey
Faruki Ireland & Cox, P.L.L.
500 Courthouse Plaza, S.W.
10 North Ludlow Street
Dayton, Ohio 45402
cfaruki@ficlaw.com
jsharkey@ficlaw.com

Attorney Examiners:

bryce.mckenney@puc.state.oh.us
greg.price@puc.state.oh.us

Zachary D. Kravitz