BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the Ohio Development Services Agency for an Order Approving Adjustments to the Universal Service Fund Riders of Jurisdictional Ohio Electric Distribution Utilities.	)))))	Case No. 17-1377-EL-USF

DIRECT TESTIMONY OF KEVIN C. HIGGINS

On Behalf of The Kroger Co.

July 24, 2017

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. In Ohio, Kroger has more than 240 facilities served collectively by Ohio Power Company ("Ohio Power"), Duke Energy Ohio, Inc. ("Duke"), Dayton Power and Light Company ("DP&L"), the Ohio Edison Company and the Toledo Edison Company ("Toledo Edison"). Collectively these facilities consume more than 575 million kWh per year.

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 the Public Utilities Commission of Ohio ("Commission" or "PUCO")?

A. Yes. In 2016, I filed testimony in AEP Ohio's amended Electric Security Plan ("ESP") proceeding, Case Nos. 16-1852-EL-SSO et al., and Dayton Power and Light's ("DP&L") 2016 Electric Security Plan ("ESP") proceeding, Case Nos. 16-0395-EL-SSO, et al. In 2015, I filed testimony in AEP Ohio's Affiliate Power Purchase Agreement proceeding, Case Nos. 14-1693-EL-RDR, et al. In 2014, I filed testimony in the Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company's (collectively, "FirstEnergy") ESP IV proceeding, Case Nos. 14-1297-EL-SSO, et al. (with supplemental testimony filed in 2015); Duke Energy Ohio's ("Duke") ESP III proceeding, Case Nos. 14-841-EL-SSO, et al.; the AEP Ohio ESP III proceeding, Case Nos. 13-2385-EL-SSO, et al.; DP&L's storm cost recovery rider proceeding, Case Nos. 12-3062-EL-RDR, et al. and the Republic Steel reasonable arrangements proceeding, Case No. 13-1913-EL-AEC.

In 2013, I testified in DP&L's Revised ESP proceeding, Case Nos. 12-426-EL-SSO, et al. and Duke's capacity charge proceeding, Case Nos. 12-2400-EL-UNC, et al. In 2012, I testified in the AEP Ohio ESP II proceeding, Case Nos. 11-346-EL-SSO, et al. In 2011, I testified in the Duke Market Rate Offer ("MRO") proceeding, Case No. 10-2586-EL-SSO, and Duke's ESP II 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 FirstEnergy's MRO proceeding, Case No. 09-906-EL-SSO, and in Duke's distribution rate case, Case Nos. 08-709-EL-AIR, et al.

In 2008, I testified in AEP Ohio's ESP I proceeding, Case Nos. 08-917-EL-SSO, et al.; FirstEnergy's MRO proceeding, Case No. 08-936-EL-SSO; FirstEnergy's ESP proceeding, Case No. 08-935-EL-SSO; and the FirstEnergy distribution rate case proceeding, Case Nos. 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 190 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.

Overview and Conclusions

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

A. My testimony addresses the application of the Universal Service Fund (USF) rider charges to Mercantile Customers.

Q. What are your primary conclusions and recommendations?

A. I recommend that the Commission determine that a Mercantile Customer's aggregate load within an Electric Distribution Utility (EDU) service territory be treated as a single customer for purposes of determining that Mercantile Customer's charge under the USF rider two-tier declining block rates.

Universal Service Fund

Q. Please describe the USF rider of the state's jurisdictional EDUs.

A. The USF rider is a rider levied on retail electric distribution service that is administered by the Ohio Development Services Agency (ODSA). The rider revenue requirement includes the cost of Percentage of Income Payment Plan (PIPP), electric partnership program costs, and administrative costs. ODSA proposes to recover the annual USF revenue requirement through the USF rider. The rider charge is levied against each customer account in two rate blocks based on monthly consumption. Specifically, each account or facility is assessed a kWh rate consistent with the EDU's first block rate for all monthly consumption up to and including 833,000 kWh and a kWh rate for all consumption in excess of 833,000 kWh, which for certain EDUs is less than the kWh rate in the first block. If an account or facility does not exceed the 833,000 kWh threshold, the account or facility is charged solely per the first block rate.

Q. According to ODSA's proposed methodology, how are the two USF declining block rates determined?

A. According to ODSA's proposed rate design methodology:

> "For each EDU, the rate per Kwh for the second block will be set at the lower of the PIPP charge in effect in October 1999 or the per Kwh rate that would apply if the EDU's annual USF rider revenue requirement were to be recovered through a single block per Kwh rate. The rate for the first block rate will be set at the level necessary to produce the remainder of the EDU's annual USF rider revenue requirement. Thus, in those instances where the EDU's October 1999 PIPP charge exceeds the per Kwh rate that would apply if the EDU's annual USF rider revenue requirement were to be recovered through a single block per Kwh rate, the rate for both consumption blocks will be the same."[1]

ODSA's proposed rate design methodology ensures that the second block rate will be less than or equal to the first block rate. This two-step declining block rate design methodology is not set by rule or statute, but has been approved by the Commission in prior USF rider proceedings. My understanding is that the two-step declining block rate design was first implemented in Case No. 01-2411-EL-UNC.[2] Currently, the USF riders in four EDU service territories – Ohio Power, DP&L, Ohio Edison, and Cleveland Electric Illuminating Company – have second block rates that are lower than their respective first block rates.

Q. Based on your experience in ratemaking, what policy objective is achieved from the two-step declining block rate design for the USF rider?

[1] Notice of Intent at 11.
[2] Case No. 01-2411-EL-UNC at 6.

A. The USF rider does not recover costs incurred by the customer paying the charge, but rather is a funding mechanism for a program to support other customers. Adoption of the two-step declining rate design implements a policy that limits the total financial impact of the USF rider on the state's largest electric consumers, which are among its largest employers, compared to what otherwise would occur if the rider's revenue requirements were to be recovered through a single per kWh rate. Once a threshold contribution has been made by a customer, i.e., the contribution corresponding to the rider revenues recovered at 833,000 kWh in a month, subsequent contributions are made at a reduced rate in those EDUs with a declining second block rate.

Q. On what basis does a customer qualify for the two-tier rate?

A. The qualification has historically been based on the customer's usage at a single location.

Q. Do you believe that single-site usage is the most reasonable basis for qualifying for the two-tier rate?

A. No. A rate design based on single-site usage makes sense in certain contexts, such as recovery of distribution costs, in which costs are a function of the number of locations at which a customer takes service. But a two-step rate design that limits the total financial impact of the USF rider is most rationally and reasonably applied to a customer's aggregate load within an EDU's service territory. Therefore, I recommend that the Commission determine that a Mercantile Customer's aggregate load within an EDU service territory be treated as a single customer for purposes of determining that Mercantile Customer's charge under the USF rider two-tier declining block rates

Q. What is a Mercantile Customer?

A. R.C. 4928.01(A)(19) defines a “mercantile customer” as a “commercial or industrial customer if the electricity consumed is for nonresidential use and the customer consumes more than seven hundred thousand kilowatt hours per year or is part of a national account involving multiple facilities in one or more states.”

Q. How are USF rider rates currently applied to Mercantile Customers?

A. To illustrate the current practice, assume that a Mercantile Customer has ten sites within an EDU’s service territory, each of which consumes 200,000 kWh per month. Per the current practice, each site would apply its monthly consumption of 200,000 kWh against the first rate block which applies to monthly consumption up to and including 833,000 kWh/month. Although the Mercantile Customer’s collective accounts in this example consume 2,000,000 kWh per month – more than double the 833,000 kWh/month initial rate block – none of the customer’s facilities would receive the benefit of the reduced kWh rate in the second block of the rate design.

Q. Is the current application of USF rider rates to Mercantile Customers unduly discriminatory?

A. Yes. Precluding Mercantile Customers from aggregating their electric loads across multiple facilities within an EDU’s service territory and applying that aggregated load to the USF rider block rates is unduly discriminatory. It provides different rate treatment for a large customer with a single site load than it would for a large Mercantile Customer with the same aggregate load consisting of multiple sites, which for the purposes of the USF rider, is similarly-situated. It does not allow a large Mercantile Customer to receive the benefit of the second block rate for its energy usage above 833,000 kWh/month.

Q. Please describe your proposal for how USF rider rates should be applied to a Mercantile Customer.

A. Under my proposal, the consumption at each site or account within an EDU service territory would be aggregated and then applied to the two corresponding rate blocks. To illustrate, assume the same Mercantile Customer described above that has ten sites within an EDU's service territory, each of which consumes 200,000 kWh per month. The consumption at each site or on each account would be aggregated and then applied to the two corresponding rate blocks. Specifically, the aggregated monthly consumption of 2,000,000 kWh/month[3] from the ten facilities would be applied to the two-step declining block rate design so that the first 833,000 kWh/month of consumption would be applied toward the first rate block. The remaining consumption balance of 1,167,000 kWh/month[4] from the ten facilities would be applied toward the second rate block.

Q. Does your proposal rectify the current discriminatory practice?

A. Yes, it does. According to my proposal, a large customer with a single site load would receive similar rate treatment to a Mercantile Customer with that same aggregate load consisting of multiple sites.

Q. Does your proposal shift USF costs among the customer classes of EDUs?

A. No, it does not. I am not proposing any changes to the USF rate design methodology. I am merely proposing that the rate design methodology be applied to Mercantile Customers in a manner that would allow those customers to aggregate their

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[3] 10 sites x 200,000 kWh/month = aggregate consumption of 2,000,000 kWh/month
[4] 2,000,000 kWh/month – 833,000 kWh/month = 1,167,000 kWh/month

load across multiple facilities within an EDU's service territory and to apply the aggregated load of that single Mercantile Customer to the USF rider kWh rates.

As proposed, the USF rider declining block rates are energy based charges that are applied consistently to residential, commercial, and industrial customers. Aggregating a Mercantile Customer's load will impact the billing determinants used in the rate design and will require an adjustment to the rates themselves, but this can be accomplished without shifting costs among classes of customers. As the Commission noted in its Opinion and Order in Docket No. 15-1046-EL-USF, even though the declining block rate design may result in increases to the first block relative to the second block, since all customer classes pay the first energy block rate, such an increase would not necessarily constitute a cost shift among classes of customers.[5] Further, and in the alternative, to the extent that the Commission were to be concerned about a potential cost shift among customer classes as a result of treating Mercantile Customers within each EDU as single customers for the purpose of the USF rider, the first and second blocks of the USF rider rates could be adjusted in the same proportion to accommodate the aggregation of Mercantile Customer loads.

Q. Do you have any recommendations to mitigate potential challenges associated with the implementation of your proposal?

A. Yes. I have two suggestions that would allow the EDU's to aggregate monthly consumption and make the necessary billing adjustments to implement this proposal without significant difficulty. First, Mercantile Customers can be required to complete an application process to aggregate their load with each EDU. The deadline for new applicants can be set at September 1 each year, which will allow ODSA sufficient time

[5] Docket No. 15-1046-EL-USF, Opinion and Order at 20-21.

to develop its USF rider rate adjustment application. The application process would allow EDU's to easily and quickly determine what loads to aggregate for a Mercantile Customer. It would also limit the administration of the aggregations to customers that complete the application process.

Secondly, potential concerns about the complexity of implementing the two-tier rate structure for Mercantile Customers can be mitigated by treating each participating Mercantile Customer within an EDU's service territory as a single customer for USF billing adjustments. An EDU would simply maintain its current billing systems and processes for each facility of a Mercantile Customer. In the subsequent month, the EDU could provide a credit in arrears, based on the aggregated load of the Mercantile Customer, and provide the credit adjustment via a single payment to the registered Mercantile Customer's corporate entity. The Mercantile Customer would be responsible for allocating the credit among its facilities. This approach would provide for a simple billing process for EDUs implementing the two-tier declining block rate for Mercantile Customers.

Q. What is your recommendation to the Commission regarding the application of the USF rider to a Mercantile Customer?

A. I recommend that the Commission allow Mercantile Customers to aggregate their loads within an EDU service territory and be treated as a single customer for purposes of determining the USF rider charges. This will avoid discriminatory treatment between Mercantile Customers with multiple facilities and large customers with similar load characteristics at a single facility and would extend the same policy that limits the financial impact of USF charges on large customers to Mercantile

Customers. Further, it would ***not*** cause a cost shift among *customer classes* and can be implemented without significant difficulty.

Q. Does this conclude your direct testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served upon the following parties via electronic mail on July 24, 2017.

/s/ Angela Paul Whitfield
Angela Paul Whitfield

ajay.kumar@occ.ohio.gov
fdarr@mwncmh.com
mpritchard@mwncmh.com
dstinson@bricker.com
amy.spiller@duke-energy.com
Elizabeth.watts@duke-energy.com
jeckert@firstenergycorp.com
cdunn@firstenergycorp.com
stnourse@aep.com
michael.schuler@aes.com
cmooney@ohiopartners.org
William.wright@puc.state.oh.us
Thomas.McNamee@puc.state.oh.us