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

REPLY TESTIMONY OF KEVIN C. HIGGINS

On Behalf of The Kroger Co.

August 11, 2017

REPLY TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 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. Are you the same Kevin C. Higgins who provided direct testimony on July 24, 2017 in this docket on behalf of The Kroger Co. ("Kroger")?

A. Yes.

Overview and Conclusions

Q. What is the purpose of your reply testimony?

A. The purpose of my reply testimony is to respond to concerns raised by Ohio Development Services Agency ("ODSA") witness Megan Meadows regarding Kroger's proposal to treat a Mercantile Customer's aggregate load within an Electric Distribution Utility ("EDU") service territory as a single customer for purposes of determining that Mercantile Customer's charge under the Universal Service Fund ("USF") rider two-tier declining block rates.

Q. Please summarize your conclusion and recommendations.

A. My testimony explains how Kroger's proposal can be implemented while addressing Ms. Meadows' concerns regarding any impacts on Ohio's electric distribution utilities, other Ohio jurisdictional electric customers, and ODSA's administration of the Percentage of Income Payment Plan ("PIPP") program.

<u>Response to Ms. Meadows</u>

Q. What concerns has Ms. Meadows raised regarding Kroger's proposal 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 USF revenue responsibility under the two-step declining USF block rate structure ?

A. In her direct testimony, Ms. Meadows asserts that:

> Although Kroger raised this same issue in the 2016 USF rider rate proceeding, Kroger has yet to present information as to how its proposal would be implemented and the number of mercantile customers affected. Nor has it presented information on how the proposal would affect Ohio's electric distribution utilities, other ratepayers, and ODSA's administration of the PIPP program. Considering the lack of information available in Kroger's proposal, ODSA is not in a position to accept it.[1]

I will respond to each of Ms. Meadows' concerns in turn.

Q. Before addressing the specific concerns raised by Ms. Meadows, do you have any general comments in response to her testimony?

A. Yes. Ms. Meadows' testimony regarding Kroger's proposal was prepared in response to Kroger's comments submitted in this docket on June 30, 2017. Subsequent to Kroger filing those comments, I had the opportunity to prepare and file direct testimony on behalf of Kroger in this docket. My direct testimony anticipated the type

[1] Direct testimony of Megan Meadows, p. 5-6.

of concerns raised by Ms. Meadows and offers several recommendations to address them.

Q. By way of background, please summarize Kroger's proposal for how USF rider rates should be applied to a Mercantile Customer.

A. Under Kroger's proposal, a Mercantile Customer's consumption at each site or account within an EDU service territory could have its monthly kilowatt-hour usage aggregated and applied to the two USF rate blocks for purposes of determining the Mercantile Customer's USF revenue responsibility. To illustrate, assume a Mercantile Customer has ten sites within an EDU's service territory, each of which consumes 200,000 kWh per month. Upon timely completion of an application by the Mercantile Customer, the customer's monthly consumption at each site or on each account would be aggregated and then applied to the two USF rate blocks. Specifically, the aggregated monthly consumption of 2,000,000 kWh/month[2] from the ten facilities would be applied to the two-step declining block rate design so that the first 833,000 kWh/month of aggregated consumption would be applied toward the first rate block. The remaining aggregated consumption balance of 1,167,000 kWh/month[3] from the ten facilities would be applied toward the second rate block.

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

Q. Ms. Meadows states that Kroger has not presented information as to how its proposal would be implemented. Please explain how your proposal can be implemented.

A. In my direct testimony I presented two key design features for implementing Kroger's proposal that are aimed at mitigating potential concerns that the EDUs and ODSA might have in implementing and administering the program. The first feature is that Mercantile Customers wishing to treat their aggregated load as a single customer for purposes of the USF rider would be required to apply with each EDU annually for such treatment for each EDU's service territory in which it seeks such treatment. Each Mercantile Customer's application with each EDU would be required to include a list of the accounts within each EDU's service territory to be aggregated for the Mercantile Customer, denoting the account numbers, facilities' names, and account locations. This will alleviate any burden on the EDU to identify all the accounts to be aggregated for the Mercantile Customer, as well as prevent any dispute or disagreement as to whether the correct accounts are being aggregated. To further assure certainty and reduce any alleged burden on the EDU, the Mercantile Customer would be prohibited from amending, modifying, or supplementing its account list during each year of the USF Rider. The deadline for the Mercantile Customer's applications would be set at September 1st of each year, and each year the application will include an updated list of accounts to reflect any new or additional accounts to be aggregated or removing any accounts that are now closed. This will allow the EDUs and ODSA sufficient time to develop the USF rider rate adjustment application and file by October 31st of each year.

Secondly, in order to address concerns about the potential complexity of implementing the two-step declining USF block rate structure for Mercantile Customers on an aggregated basis, I proposed that a Mercantile Customer that has completed the application process with an EDU within the EDU's service territory be treated as a single entity for USF billing adjustments. Each EDU would maintain the current practices for billing each facility of a Mercantile Customer, utilizing its normal billing periods, that is, without aggregating the loads for the purpose of the individual facility's monthly power bill. In the subsequent billing period, the EDU would perform a single calculation for each registered Mercantile Customer to determine the difference between how much revenue was collected from each facility of the registered Mercantile Customer, and how much revenue should be collected when the two-step declining USF block rate structure is applied to the aggregate of the Mercantile Customer's load. That amount of the differential would then be provided as a single billing adjustment credit via a single payment (or other suitable crediting mechanism) to the registered Mercantile Customer's corporate entity or to the Mercantile Customer's specified customer account within each EDU's service territory to allow the EDU to issue a billing adjustment credit to a customer account within its service territory. The Mercantile Customer would be responsible for allocating the credit among its facilities (to the extent it wishes) without the EDU having to perform this exercise. This approach would provide for a simple billing process adjustment for ODSA and for the EDUs implementing the two-step declining USF block rate structure for registered Mercantile Customers on an aggregated basis.

Q. From your regulatory experience, are you familiar with the requirements of Rule 122:5-3-05 of the Ohio Administrative Code (O.A.C.)?

A. Yes. This rule governs the procedures for disbursing public funds to electric utilities and the timely remittance of revenue from the EDUs to ODSA. Relevant to the implementation of my proposal, Rule 122:5-3-05(D)(1), O.A.C., provides that the EDUs must remit all USF rider revenue to the ODSA director by the 15th day of the month immediately following the month in which the revenue was received by the EDU. Rule 122:5-3-05(F)(2), O.A.C., also requires the EDUs to provide revenue reports from time to time, with sufficient detail regarding collections and USF revenue remitted to the ODSA director in connection with the PIPP Plus program.

Q. In your regulatory experience, do you believe that Kroger's proposal regarding Mercantile Customers would impact the ability of parties to adhere to the requirements of Rule 122:5-3-05, O.A.C.?

A. No. The procedures require the EDUs to remit USF rider revenues within a specific time frame after receiving them. My proposal calls for an EDU to make a single monthly billing adjustment credit for a registered Mercantile Customer in the subsequent billing period. Regardless of the exact timing that a billing adjustment credit is made during the month, it can be netted against all other USF rider revenues for that month, and the total gross USF rider revenues can be remitted to the ODSA director per the existing practice. Any billing adjustment credits can be included in the revenue reports that are produced after the credit has been made.

Q. Ms. Meadows states that Kroger has not identified the number of Mercantile Customers that would be affected by your proposal. What is your response to this concern?

A. Neither Kroger nor I have access to the EDU customer billing information necessary to identify the number of Mercantile Customers that potentially could be affected by my proposal. However, the application process that I have proposed, which places the burden on the Mercantile Customer to apply for USF rider load aggregation by a specific date prior to the rate-effective period, provides an orderly process for determining those impacts. The application process would allow ODSA and the EDUs to readily determine which Mercantile Customers would participate and which site loads would need to be aggregated. It would also limit the administration of aggregations to only those customers that successfully complete the application process.

Q. How would Ohio's EDUs be affected by Kroger's proposal?

A. Kroger's proposal has been designed to enable Ohio's EDUs to implement it with a minimum amount of difficulty. The application process I am recommending would allow the EDUs to readily determine which Mercantile Customers are located in their service territory and which loads to aggregate. My proposal to treat a registered Mercantile Customer within an EDU's service territory as a single entity for the USF billing adjustment would allow the EDUs to leverage their existing billing practices while performing a single additional monthly calculation and billing credit adjustment for each participating Mercantile Customer.

Q. How would ODSA's administration of the PIPP program be affected by Kroger's proposal?

A. Kroger's proposal does not increase or decrease PIPP revenues. The application process that I have proposed will allow ODSA to readily determine which Mercantile Customers will aggregate their load and be treated as a single customer for purposes of applying the two-step declining USF block rate structure and calculating the participating Mercantile Customer's USF revenue responsibility. The application deadline of September 1st will allow ODSA sufficient time to make any necessary adjustments to the billing determinants used in the calculation of the two-block rate structure as part of its USF rider rate adjustment application. If it is determined that a September 1st application deadline for Mercantile Customers does not provide ODSA sufficient time to complete its USF rider rate adjustment application, then the deadline can be moved to an earlier reasonable date to provide additional time.

Q. What are the impacts on Ohio's electric customers?

A. Kroger's proposal to provide for the aggregation of Mercantile Customers' loads would impact the billing determinants used in the USF rider rate design, similar to what occurs now when updated billing determinants are used for calculating new USF rider rates. The process for updating the billing determinants is comparable to what occurs when a new customer enters the EDU's service territory and starts paying the USF rider, a customer leaves the service territory, or a customer increases or decreases its electric consumption. The application process for Mercantile Customers that I have proposed would provide an orderly process for determining the changes in billing determinants.

Q. What is your recommendation to the Commission?

A. I recommend that the Commission approve Kroger's proposal to allow Mercantile Customers to aggregate their loads within an EDU's service territory and be treated as a single customer for purposes of determining the Mercantile Customer's USF revenue responsibility. As part of Kroger's proposal, I have recommended an application process that will provide an orderly approach to determining which Mercantile Customers will participate in aggregating their load for purposes of applying the two-step declining USF block rate structure and calculating the participating Mercantile Customer's USF revenue responsibility. I have also proposed that a single monthly billing adjustment could be made for each Mercantile Customer that would allow the EDUs and ODSA to implement Kroger's proposal without an undue administrative burden.

Q. Does this conclude your reply 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 August 11, 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@ohioattorneygeneral.gov
Thomas.McNamee@ohioattorneygeneral.gov