**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| In the Matter of the Application of **Ohio Power Company** for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan.In the Matter of the Application of **Ohio Power Company** for Approval of Certain Accounting Authority. | ::::::::: | Case No. 13-2385-EL-SSOCase No. 13-2386-EL-AAM |

**PREFILED TESTIMONY**

**OF**

**PATRICK DONLON**

**Utilities Department**

**Rates Division**

**Public Utilities Commission of Ohio**

**Staff Exhibit \_\_\_\_\_**

**May 20, 2014**

BAD DEBT RIDER 5

LATE FEE 11

PARTIAL PAYMENT TRACKING METHODOLOGY 12

IMPLEMENTATION COST 13

PROOF OF SERVICE 16

ATTACHMENT 1

1. Q. Please state your name and your business address.

 A. My name is Patrick Donlon and my business address is 180 East Broad Street, Columbus, Ohio 43215.

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

 A. I am employed by The Public Utilities Commission of Ohio (PUCO) as a Rates Division Administrator in the Utilities Department.

3. Q. How long have you been in your present position?

 A. I assumed my present position in August of 2012.

4. Q. What are your responsibilities in your current position?

 A. In my current position, I am responsible for managing several Staff members and actively participating in investigations of assigned phases of rate case applications and other financial audits of public utility companies subject to the jurisdiction of the PUCO.

5. Q. Will you describe briefly your educational and business background?

 A. I received a Bachelor of Science degree in Accounting with a minor in Economics Management from Ohio Wesleyan University in 2000. In 2010, I earned a Master of Business Administration degree from Franklin University.

 I worked for American Electric Power (AEP) for just under ten years in two stints with the company serving in various roles. For AEP, I was an accountant in the Generation Accounting Department, an Hourly Energy Trader for AEP focusing in the Southwestern Power Pool (SPP) market, a Fuel, Emissions and Logistics (FEL) Coordinator and a financial planning analyst in Commercial Operations.

6. Q. Have you provided testimony before the Public Utility Commission of Ohio?

 A. Yes, I provided testimony in the following cases: Dayton Power and Light, Case No. 12-426-EL-SSO; Duke, Case Nos. 12-1682-EL-AIR and 12-1685-GA-AIR; and Northeast Natural Gas, Case No. 12-209-GA-GCR, et al.

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

 A. The purpose of my testimony is to address AEP’s proposed Purchase of Receivable (POR) program and bad debt rider.

8. Q. Does Staff feel that a POR program is appropriate?

 A. Yes. As noted in the Commission’s Order in Case No. 12-3151-EL-COI, “the Commission encourages each EDU to include in its next distribution rate case or SSO an application to implement a POR program or equiva­lent.”[[1]](#footnote-1)

9. Q. Please explain the Company’s Purchase of Receivable program and bad debt rider as proposed.

 A. The Company is proposing to purchase the receivables of the Certified Retail Electric Service (CRES) providers that participate in consolidating billing. The key points of the proposal are:

* POR without recourse,
* All suppliers that use consolidating billing must participate,
* Initially, the Company will not purchase any receivables from cus­tomers 60 days or more in arrears,
* The Company will only purchase commodity related charges,
* The Company will pay CRES providers on a “revenue lag” annual calculation,
* The Company will create a bad debt rider,
* The Company will create a late fee with the additional revenue off­setting the bad debt rider,
* The Company will charge an annual fee to CRES providers for implementation and incremental cost of the POR program.

10. Q. Does Staff recommend the purchase of receivable program as proposed by the Company?

 A. No, while Staff does agree that a purchase of receivable program is appropriate, there are significant changes Staff recommends.

11. Q. Which parts of the Company’s proposed POR does Staff disagree with?

 A. Staff disagrees or has changes to the following proposals of the Company:

* The Company’s bad debt rider;
* The Company’s creation of a late fee with the additional revenue offsetting the bad debt rider;
* The Company charging an annual fee to CRES providers for imple­mentation and incremental cost of the POR program.

 12. Q. Does Staff agree that all customers that participate in consolidated billing should be required to participate in the POR program?

 A. No, Staff believes that large industrial and large commercial customers should be excluded from the POR program, even if they participate in con­solidated billing. However, all other rate classes, if participating in consoli­dated billing, should be mandated to participate in the POR program.

# BAD DEBT RIDER

13. Q. Explain the bad debt rider as proposed by the Company?

 A. The Company is proposing a bad debt rider that will recover forecasted incremental bad debt expenses annually above the $12,221,000 of bad debt expense that is currently collected in distribution base rates. The Company proposes the addition of late payment fees that will offset the bad debt rider. The Company proposes that the bad debt purchased from the CRES as part of the POR program and the Company’s own SSO customers be included in the rider. Also, AEP proposes to include in the bad debt rider any percentage of income payment plan (PIPP) installment payments not recovered through universal service fund rider or from another mechanism.

14. Q. Does Staff agree that the Company should be allowed a bad debt rider to collect 100% of the purchased receivables?

 A. No, Staff recommends a discount rate for the purchased receivables instead of a bad debt rider. A discount rate is a reduced purchase amount reflecting the potential risk of non-collection.

15. Q. Why is Staff recommending a discount rate instead of the Company’s proposed bad debt rider?

 A. The Company’s bad debt rider proposal includes adjusting the rider for the over/under recovery of the bad debt expense of $12,221,000[[2]](#footnote-2) that the Com­pany represents is included in base distribution rates as result of the Com­pany’s last distribution rate case (Case No. 11-351-EL-AIR). It is not appropriate to adjust costs from the distribution rate case in this proceeding as explained below. If the Company files a distribution rate case, Staff would be open to the proposal of a bad debt rider, however at this time it is more appropriate in this hearing to provide the Company with a discount rate for the purchase of receivables for each CRES provider to accurately capture the incremental cost of collections for the uncollectible amount of the purchased receivables.

16. Q. Do other companies have bad debt riders and POR programs?

 A. Yes. The large Ohio regulated gas companies, except Duke, established a bad debt rider in 2003. Prior to implementing a bad debt rider, each of these utilities had already been purchasing competitive suppliers’ account receivables at a discount rate. In 2011, Duke established an uncollectible generation rider for electric,[[3]](#footnote-3) however, prior to that, Duke purchased the CRES providers’ accounts receivable at a discount rate. It is important to start a POR program with a discount rate to remain consistent with prece­dent set by other utilities and to ensure accurate data is collected to properly determine the risk and potential impact CRES suppliers’ uncollectible charges will have on the Company’s bad debt expense.

17. Q. Would the discount rate calculation be the same for all CRES providers?

 A. No, the Company would calculate a separate discount rate for each CRES provider. The reason for this is to ensure that each CRES provider assumes the appropriate amount of risk for uncollectibles associated with their customers.

18. Q. Explain the discount rate calculation.

 A. An example of the discount rate calculation is included as Attachment 1. The calculation has three separate calculated components that I will discuss in detail. The calculated components are:

* Percent of Specific CRES Provider’s Uncollectible
* Uncollectible Percentage
* Credit & Collections Adder

19. Q. Explain the percent of specific CRES provider’s uncollectible.

 A. The calculation determines the percentage of accounts uncollectible by each individual CRES provider that is participating in the POR program. The calculation includes the total amount of uncollectible from each specific CRES provider in the prior year divided by the total amount of uncollect­ible by the Company. The first year’s discount rate will require that the uncollectible be forecasted and the full amount included in the Company’s total uncollectible.



20. Q. What is the purpose of calculating the percent of specific CRES uncollect­ible?

 A. The calculation is to develop a method to allocate the collection cost, and uncollectible expenses. Calculating this by each specific CRES provider allows the CRES providers to pay only their incremental share of expenses. Additionally, this will create an incentive for CRES providers to properly vet their potential customers or assume the increased risk of soliciting to higher risk customers.

21. Q. How is the Uncollectible Percentage calculated?

 A. The uncollectible percentage calculates the discount rate based off the CRES provider’s prior year’s uncollectible accounts. To calculate this per­centage, the Company will take the total specific CRES provider’s uncol­lectible accounts from the prior year and divide it by 100% of the pur­chased commodity from the specific CRES providers. In the first year, the total uncollectible accounts for the prior year would need to be a forecasted amount for the specific CRES providers.



22. Q. What is the purpose of calculating the Uncollectible Percentage?

 A. The calculation is to determine the portion of the discount rate that is asso­ciated with the amount of uncollectible revenue that the Company will experience from purchasing the receivables from each specific CRES pro­vider.

23. Q. How is the Credit and Collection Adder calculated?

 A. The credit and collection adder is calculated by taking the collection cost divided by the annual sales in Kwh to get a cost per Kwh. The Company will forecast their sales including the POR sales, which is to be multiplied by the cost per Kwh, resulting in a forecasted collection costs. The fore­casted collection cost is then multiplied by the percent of specific CRES billed POR, divided by the specific CRES provider’s billed POR.



24. Q. What is the purpose of Credit and Collection Adder?

 A. The purpose of credit and collection adder is to ensure that the Company recovers the incremental cost of collection specific to each CRES provider.

25. Q. What is included in the collection cost?

 A. The collection costs are those expenses recorded in FERC account 903 and described within the account description of the FERC Uniform System of Accounts that are directly or indirectly associated with residential and small commercial collection costs.

26. Q. What is the POR Discount Cap?

 A. The POR discount cap is set at 5% and it is the maximum that the Company can discount the purchase of receivables to any one CRES provider. The Company will add up the factors to calculate the total discount rate if the sum of the components is greater then 5%, the discount rate will be capped at 5%.



27. Q. What is the rational for a POR Discount Cap?

 A. The POR discount cap is a ceiling, designed as an incentive for the Com­pany to continue to ensure that their collection costs are minimized and they continue to be diligent in their collections efforts.

# LATE FEE

28. Q. Why does Staff disagree with the Company’s proposal for a late fee?

 A. Since Staff is opposed to the Company’s proposal for a bad debt rider, Staff cannot support the inclusion of a late fee. Adding a late fee at this time would increase the revenue to the shareholders of the Company rather than offset the uncollectible of the Company. When the Company comes in for its distribution rate case, Staff would not be opposed to the inclusion of a late fee to offset the uncollectible account at that time.

# PARTIAL PAYMENT TRACKING METHODOLOGY

29. Q. Does there need to be a methodology for allocating partial payments to cus­tomer bills that are purchased?

 A. Yes. An internal tracking and allocation of any payments that do not pay a customer’s bill in full is needed. Since the discount rate is calculating a specific discount rate for each CRES provider, misallocated partial pay­ments could result in a higher CRES provider discount rate. Staff proposes that partial payments be allocated based on the percentage of the overall bill after taxes, for generation (G), transmission (T) and distribution (D) charges. A simple example would be a customer with a $105 bill. The bill consists of $5 of taxes and government fees, T and D charges of $25 each and the remaining $50 is G. Assuming the customer only pays $25 dollars of their bill, the Company would take $5 to pay taxes and government fees; whereas, the remaining $20 would be allocated based on the three charges, in this scenario, T and D would receive $5 each and G would receive $10.

30. Q. Would this methodology for allocating partial payments to customer bills that are purchased affect anything other than the calculation for the percent of specific CRES provider’s uncollectible?

 A. No. The allocation methodology is an internal tracking allocation process only to ensure the calculation is accurate. This is not intended to change Ohio Adm. Code 4901:1-10-22(G).

# IMPLEMENTATION COST

31. Q. What was the Company’s proposal for the cost to implement a POR and how did they propose to collect this cost?

 A. The Company estimates the cost to implement a fully automated POR to be approximately $1.5 million. The Company forecasted an additional $207,600 of incremental on going yearly O&M support cost. The Com­pany proposes to collect those cost through a fee charged to the participat­ing CRES providers. The fee was derived by dividing the amortized imple­mentation cost over five years, and forecasted yearly administration costs by the projected number of shopping customers.

32. Q. Does Staff agree with the Company’s proposal for the cost to implement a POR?

 A. Staff proposes that the estimated incremental O&M support costs are assigned through the credit and collection adder. Staff does agree with the Company’s proposal to assess a yearly per-consolidated bill fee to the CRES providers for the implementation cost for a fully automated POR program.

33. Q. Should the yearly per-consolidated bill fee to CRES providers be adjusted annually?

 A. Yes. Staff proposes that annually when the Company calculates the dis­count rate the Company also trues up the yearly per-consolidated bill fee. The true-up should include the variance of actual cost of implementation verses the estimate and an adjustment for the most recent consolidating bill­ing customer numbers.

34. Q. Should there be a cap on the cost to implement a POR program?

 A. There should not be a hard cap on the cost to implement the POR program; however the Company should accurately track the cost as incurred. If the Company sees that the cost will exceed 10% of the Company’s $1.5 million estimate the Company should be required to notify the participating CRES providers and Staff. Upon notice of exceeding the $1.5 million by 10% the CRES providers can request that the Commission audit the Company’s implementation cost for prudency. At that time, the Staff with Commission approval, will audit the cost incurred and projected for the implementation of the POR program and submit its findings to the Commission with a rec­ommendation of the reasonableness of the costs. Staff should file the Staff report within three months of the Commission approving the audit.

35. Q. Does this conclude your testimony?

 A. Yes, it does. However, I reserve the right to submit supplemental testi­mony as described herein, as new information subsequently becomes avail­able or in response to positions taken by other parties.

# PROOF OF SERVICE

 I hereby certify that a true copy of the foregoing Prefiled Testimony of **Patrick Donlon** submitted on behalf of the Staff of the Public Utilities Commission of Ohio,was served by regu­lar U.S. mail, postage prepaid, hand-delivered, and/or delivered via elec­tronic mail, upon the follow­ing par­ties of record, this 20th day of May, 2014.

/s/ Devin D. Parram

**Devin D. Parram**

Assistant Attorney General

**Parties of Record:**

|  |  |
| --- | --- |
| campbell@whitt-sturtevant.combarthroyer@aol.comcloucas@ohiopartners.orgcmooney@ohiopartners.orgdconway@porterwright.comdboehm@bkllawfirm.comdborchers@bricker.comedmund.berger@occ.ohio.govfdarr@mwncmh.comgary.a.jeffries@dom.comgpoulos@enernoc.comwilliams@whitt-sturtevant.comglpetrucci@vorys.commhpetricoff@vorys.comtsiwo@bricker.comjmcdermott@firstenergycorp.comjfinnigan@edf.orgjkylercohn@bkllawfirm.comjfinnigan@edf.orgjoseph.clark@directenergy.comjoliker@mwncmh.comjoseph.serio@occ.ohio.govjudi.sobecki@aes.combojko@carpenterlipps.comlfriedeman@igsenergy.comlhawrot@spilmanlaw.commohler@carpenterlipps.comhaydenm@firstenergycorp.com | mjsatterwhite@aep.commswhite@igsenergy.commaureen.grady@occ.ohio.govmkurtz@bkllawfirm.commsmalz@ohiopovertylaw.orgnmcdaniel@elpc.orgplee@oslsa.orgphilip.sineneng@thompsonhine.comricks@ohanet.orgrocco.dascenzo@duke-energy.comsam@mwncmh.comswilliams@nrdc.orgcasto@firstenergycorp.comsasloan@aep.comstephanie.chmiel@thompsonhine.comstephen.chriss@walmart.comstnourse@aep.comtammy.turkenton@puc.state.oh.ustshadick@spilmanlaw.comtobrien@bricker.comtdougherty@theOEC.orgvparisi@igsenergy.comzkravitz@taftlaw.comwhitt@whitt-sturtevant.commyurick@taftlaw.commpritchard@mwncmh.comschmidt@sppgrp.com |

**Attachment 1**

 

1. *In the Matter of the Commission’s Investigation of Ohio’s Retail Electric Service Market*, Case No. 12-3151-EL-COI (Finding and Order at 21) (Mar. 26, 2014). [↑](#footnote-ref-1)
2. AEP Ohio witness Stacey Gabbard testimony at 9. [↑](#footnote-ref-2)
3. *In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service,* Case No. 11-3549-EL-SSO. [↑](#footnote-ref-3)