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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

2011 APR 29 PM 3:23

In the Matter of the Application of
Columbus Southern Power Company
for Approval of a Mechanism to Recover
Costs in Relation to the Department of
Development's Update to the Percentage
of Income Payment Plan Plus and
Deferral of Costs.

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PUCO

Case No. 11-148-EL-RDR

In the Matter of the Application of
Ohio Power Company for Approval
of a Mechanism to Recover Costs in
Relation to the Department of
Development's Update to the Percentage
of Income Payment Plan Plus and
Deferral of Costs.

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Case No. 11-149-EL-RDR

COMMENTS
OF
THE OHIO DEPARTMENT OF DEVELOPMENT

I. INTRODUCTION

By their joint application filed herein on January 11, 2011, Columbus Southern Power Company and Ohio Power Company (collectively, the "Companies") request Commission approval of distribution riders to recover the incremental increase in uncollectible expense the Companies allege will be created as a result of the new rules governing the operation of the electric percentage of income payment plan ("PIPP") program implemented November 1, 2010 by the Ohio Department of Development ("ODOD"), the administrator of the program. The application also seeks approval of accounting modifications to permit the Companies to defer this incremental uncollectible expense until such time as it is recovered through the proposed riders.

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On February 25, 2011, ODOD filed a motion to intervene in these proceedings. In the supporting memorandum accompanying its motion, ODOD explained that the proposals contained in Companies' application would undermine an important objective of its new electric PIPP rules to the detriment of the Universal Service Fund ("USF") administered by ODOD and the Companies' ratepayers. Thus, as a part of its motion, ODOD requested that the Commission find that the proposals contained in the application may be unjust and unreasonable and set this matter for hearing or, at minimum, establish a comment cycle, so that issues raised in ODOD's supporting memorandum can be fully explored. The Commission has not yet acted on ODOD's motion to intervene or on the pending motions to intervene in this matter filed by the Office of the Ohio Consumers' Counsel ("OCC") and Ohio Partners for Affordable Energy ("OPAE), which, like ODOD's motion, are also unopposed.

As noted above, ODOD suggested in its memorandum that, as an alternative to setting this matter for hearing, the Commission might wish to consider establishing a formal comment cycle. However, in raising this alternative, ODOD pointed out that the application contains certain significant factual allegations, and that factual allegations are best examined in a hearing where the evidence offered in support of such allegations can be tested.¹ In this connection, ODOD specifically cited the Companies' claim that the electric PIPP rule changes in question could increase the Companies' incremental uncollectible expense by some \$3.65 million per year.² Based on additional information that has since been made available to ODOD, it appears that this \$3.65 million claim is grossly overstated, which drives home the need for a hearing in this matter. Indeed, this information shows that the methodology employed by the Companies to

¹ See ODOD Memorandum In Support, 5, fn 10.

² *Id.*, citing Application, 3.

calculate the increase in incremental bad debt they attribute to the implementation of the new rules is fatally flawed. Moreover, this information shows that, under the Companies' proposal, its ratepayers would pay a portion of these costs twice, once through the Companies' USF riders and once through the proposed PIPP-specific uncollectible expense riders. Although no procedural schedule has yet been established, ODOD believes it imperative that it address this issue now so that the Commission can make an informed decision with respect to the course this proceeding should take.

II. THE COMPANIES' CLAIM THAT THE NEW ELECTRIC PIPP RULES WILL CAUSE AN INCREMENTAL INCREASE IN THEIR ANNUAL UNCOLLECTIBLE EXPENSE OF \$3.65 MILLION IS PATENTLY FALSE.

A. Under The New Electric PIPP Rules, The Companies Will Continue To Be Reimbursed For The Cost Of Electricity Delivered To PIPP Customers Until The Customer Is Dropped From The PIPP Program.

As explained in detail in ODOD's earlier memorandum,³ income-eligible customers enrolled in the PIPP program can maintain service by paying a fixed, specified percentage of their income to the utility each month, as opposed to paying the amount of the monthly bill based on their actual metered consumption. Under the electric PIPP program, the electric distribution utility ("EDU") is reimbursed for the difference between the PIPP customer's specified installment payment and the cost of the electricity delivered to the PIPP customer through payments by the EDU's ratepayers collected via USF riders approved by this Commission. Pursuant to Section 4928.51(A), Revised Code, the EDU remits the funds collected through the USF riders to ODOD on a monthly basis for deposit in the state treasury's USF. ODOD then reimburses the EDU from the USF for the difference between the PIPP installment payment and

³ See ODOD Memorandum in Support, 5-7.

the cost of electricity delivered to PIPP customers, as well for any accumulated arrearages of PIPP customers at the time they enroll in the program.

Prior to the enactment of the new PIPP rules, the EDUs remitted the PIPP payment installments collected from customers enrolled in the PIPP program along with the USF rider collections, and ODOD's reimbursement payments covered both the installment payments and the difference between the PIPP installment payments received and the cost of the electricity delivered to the PIPP customers. As a result, ODOD was responsible for the amount of any unpaid installment payments in the event of a PIPP customer default, which meant that this amount was included in the cost of PIPP recovered from ratepayers through the USF rider. Because the EDU was guaranteed 100 percent recovery of the cost of electricity delivered to the PIPP customer regardless of whether the PIPP customer made the monthly PIPP installment payment, the EDU had no incentive to disconnect a defaulting PIPP customer promptly or to pursue collection aggressively once the customer was disconnected. ODOD believed that this lack of incentive may have resulted in the cost of PIPP collected from ratepayers through the USF riders being greater than it would have been if the EDU were at risk for the PIPP installment amount due, just as it is at risk for the arrearages generated by other customers that fail to pay the amount due.⁴

ODOD addressed this concern by enacting in new Rule 122:5-3-04(B)(2), OAC:

Electric distribution utilities shall not be entitled to recover from the fund, and they shall not charge to the director, any deficiencies accruing as a result of a PIPP customer's failure to pay monthly PIPP installment amounts.

⁴ The EDU mitigates its bad debt exposure by terminating service to defaulting customers under the terms of the Commission's disconnection rule. In the case of PIPP customers, the default amount is the amount of the unpaid PIPP installment, not the amount of the actual bill. Thus, the amount at risk in the case of PIPP customers is significantly less than the amount at risk in the case of non-PIPP customers.

With the implementation of this rule, the EDU no longer remits PIPP installment payments to ODOD, and is now at risk for the PIPP installment amounts owed when a PIPP customer defaults. This is as it should be, because the PIPP installment payment is the amount the PIPP customer must pay to the EDU to retain service and is not an amount subsidized by ratepayers through the EDU's USF rider. However, under the new rules, ODOD continues to reimburse the EDU for the difference between the PIPP installment amount and the amount of the actual bill based on the PIPP customer's metered consumption. New Rule 122:5-04(B)(1), OAC, provides, in pertinent part, as follows:

Current bill balances have been charged to the director monthly and paid from the fund. From and after the effective date of this rule, the director *shall continue to pay from the fund* accrued arrearages upon initial enrollment of an eligible customer in the PIPP program and *monthly current bill balances according to the payment procedures described in rule 122:5-3-05 of the Administrative Code.* (emphasis added).

As demonstrated below, the Companies have ignored this important point in claiming that the new PIPP rules will increase their incremental uncollectible expense by \$3.65 million annually.

B. The Companies' Calculation Of The Incremental Increase In Uncollectible Expense Attributable To The Rule Change Ignores That The Companies Will Continue To Be Reimbursed For The Difference Between The PIPP Installment Amount And The Cost Of Electricity Delivered To PIPP Customers Until The Customer Is Dropped From The PIPP Program.

On April 19, 2011, the Companies copied ODOD with their responses to discovery served upon them by OCC, which included an interrogatory requesting an explanation of how the alleged \$3.65 million in additional bad debt exposure was derived. A copy of the Companies' response to this interrogatory is attached hereto as Exhibit A. As summarized in this response, the Companies began by determining that the average PIPP installment payment was

\$44.00, and that the average cost of monthly metered consumption for PIPP customers was \$136.98. To reflect the fact that a customer is subject to being dropped from the program after missing a second consecutive PIPP installment payment, the Companies then multiplied the \$44.00 average monthly PIPP installment payment by 2, and the average cost of metered consumption by 1.5,⁵ to come up with an average per-customer write-off balance of \$293.47. This per-customer total was multiplied by the average number of PIPP accounts written off in a year (18,545), and the product was then reduced by 32.92% to reflect the percentage of PIPP customers that are typically reinstated. This calculation produced the Companies' claim that the PIPP rule change in question could result in an incremental increase in collectible expense of \$3.65 million $[18,545 \times \$293.47 \times (1 - 0.3292) = \$3,650,762]$. However, this methodology is at odds with the way the electric PIPP rules operate.

As noted above, under the new PIPP rules, the EDU continues to be reimbursed for the difference between the customer's PIPP installment amount and the cost of the electricity delivered to the customer until the customer is dropped from the PIPP program. Thus, there is no basis for including the \$205.47 $(\$136.98 \times 1.5 = \$205.47)$ cost of electricity delivered to PIPP customers in attempting to calculate the annual incremental increase in uncollectible expense attributable to the rule change. Although the defaulting customer continues to be liable for this amount, the Companies are fully reimbursed for this amount from the USF regardless of whether it is ever collected from the customer. Accordingly, this amount is not "bad debt" from the Companies' standpoint, and it would be totally improper for the Companies to write off this

⁵ The 1.5 multiplier was apparently used to reflect that, in light of the Rule 4901:1-18-06, OAC, 14-day disconnection notice requirement, the customer would continue to receive service until the middle of the month following the second missed payment. Again, if ODOD does not drop the customer, the EDU continues to be reimbursed for the difference between the PIPP installment payment and the cost of electricity delivered to the customer.

amount as uncollectible. Further, to attempt to collect this amount from ratepayers through a PIPP-specific uncollectible expense rider would result in ratepayers paying this amount twice, once through the cost of PIPP component of the revenue requirement built into the USF rider rate, and a second time through the proposed uncollectible expense rider.

C. A Proper Application Of The Methodology Used By The Companies To Estimate The Incremental Increase In Bad Debt Expense Attributable To The Rule Change Produces An Indicated Annual Increase Of \$1.1 Million, As Compared To The \$3.65 Million Claimed In The Application.

Correcting the Companies' calculation of the annual write-off attributable to the rule change by eliminating the amount for which they are reimbursed from the USF produces an indicated incremental increase in uncollectible expense attributable to the rule change of \$1,111,038 [$18,545 \times \$88.00 \times (1 - 0.3292) = \$1,111,038$]. Plainly, \$1.1 million, although not insignificant, is a far cry from \$3.65 million. Moreover, it is important that the Commission bear in mind this \$1.1 million figure is only an estimate, and that the historical annual data the Companies utilized to derive this estimate predates the new electric PIPP rules. Thus, even with the correction described above, there are reasons to believe that this calculation may well significantly overstate the incremental impact of the new rule on the Companies' annual uncollectible expense.

First, new Rule 122:5-3-04(B)(3), OAC, creates an arrearage crediting program whereby a PIPP customer that makes a monthly on-time payment of the PIPP installment amount receives a credit against his/her accumulated arrearage balance.⁶ To the extent this incentive for the PIPP customer to remain current on his/her PIPP installment payments proves effective, the Companies' use of the historical PIPP customer default rate in projecting the incremental impact

⁶ Because the EDU has already been reimbursed for the customer's accumulated arrearages, this program is risk-free from the EDU's perspective.

of the rule change transferring responsibility for the PIPP installment payments from ODOD to the EDUs will overstate the Companies' bad debt exposure.

Second, new Rule 122:5-3-04(A)(1), OAC, reduces the percentage of the PIPP customer's income upon which the PIPP installment payment is based. This, too, should tend to reduce the instances of PIPP customer default, which further suggests that the Companies' projection of the incremental increase in uncollectible expense resulting from the rule change that prompted the filing of the application may well be overstated, even after the necessary adjustment to eliminate amounts for which the Companies have been reimbursed.

III. CONCLUSION

The intent of new Rule 122:5-3-04(B)(2), OAC, was to place PIPP customer defaults on the same footing as other customer defaults, thereby providing the same incentive for the EDU to disconnect defaulting PIPP customers promptly and to pursue collection activities against them that it has to take these actions with respect to other defaulting customers. The Companies do not currently have uncollectible expense riders to recover incremental increases in their bad debt expense, nor have they proposed such riders in their pending distribution rate increase application.⁷ Thus, approval of the Companies' application to establish a PIPP-specific uncollectible expense riders would undermine the purpose of the new rule.

ODOD recognizes that, because the Companies heretofore have been guaranteed 100 percent recovery of PIPP of the cost of electricity delivered to PIPP customers, their current rates contain no allowance for uncollectible expense associated with PIPP customer defaults. Although, going forward, the Companies will obviously incur some level of uncollectible

⁷ See *In re the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively AEP Ohio) for an Increase in Electric Distribution Rates*, Case No. 11-351-EL-AIR, et al. (Application dated January 27, 2011).

expense as a result of PIPP customer defaults, it is clear that the amount that can be treated as bad debt is limited to the amount of unpaid PIPP installment payments and cannot include the cost of electricity delivered to PIPP customers for which the Companies have been reimbursed by ODOD.⁸ Further, as discussed above, there is reason to believe that, going forward, the PIPP customer default rate will be lower than in the past. Thus, the question before the Commission is whether the new bad debt exposure created by the rule change is so significant as to warrant establishing separate PIPP-specific bad debt trackers, or whether, consistent with intent of ODOD's rule, the bad debt attributable to PIPP installment payment defaults should be treated in the same manner as the uncollectible expense created when other customers fail to pay their bills (*i.e.*, included as a test-year expense in a rate case and recovered through base rates).⁹ To fairly answer this question, the Commission plainly needs more accurate and complete information than the Companies have presented in their application. Accordingly, the Commission should set this matter for hearing as proposed by ODOD.

⁸ Under the new rule, the Companies are, of course, entitled to write off the unpaid PIPP installment balance of a defaulting PIPP customer. If collection efforts subsequently lead to the recovery of all or any portion of this balance, the recovered amount would ultimately be offset against uncollectible expense. However, to the extent the recovered amount includes all or any part of the balance owed by the customer for the cost of electricity, that amount would be remitted to ODOD because the Companies have already been reimbursed for that amount from the USF.

⁹ As noted above, the Companies do not have uncollectible expense riders to recover incremental increases in bad debt on an ongoing basis, nor have they proposed such riders in their application in Case No. 11-351-EL-AIR, et al. Thus, the Companies apparently believe that they can live with the risk of incremental increases in uncollectible expense generated by other customer defaults without a bad-debt tracker, which obviously raises the question of why the PIPP-specific uncollectible expense riders proposed in their application in this case are necessary. If this issue is deferred to the pending rate case – an alternative suggested by ODOD in its earlier memorandum – test-year uncollectible expense could be adjusted to annualize the impact of the new exposure to the unpaid PIPP installments of defaulting PIPP customers. Not only would this be consistent with ODOD's objective of placing PIPP customer defaults on the same footing as other customer defaults, but it would permit the Commission to base the allowance for PIPP-specific uncollectible expense on actual post-November 1, 2010 data rather than on pure guesswork.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Barth E. Royer', written over a horizontal line.

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EXHIBIT A

**COLUMBUS SOUTHERN POWER COMPANY'S
RESPONSE TO
THE OHIO CONSUMERS' COUNSEL
DATA REQUEST
PUCO CASE NO. 11-148-EL-RDR
FIRST SET**

INTERROGATORY

INT 1-001. * In accordance with Ohio Adm. Code 4901-1-16(D)(5), OCC is specifically requesting that all responses be supplemented with subsequently acquired information at the time such information is available.

INT-1. What underlying assumptions were made by AEP Ohio leading to the following statement made on page 3 of the Application: "AEP Ohio anticipates the impact of that unpaid customer portion could potentially result in an incremental uncollectible expense incurred by the Companies around \$3.65 million per year?"

RESPONSE

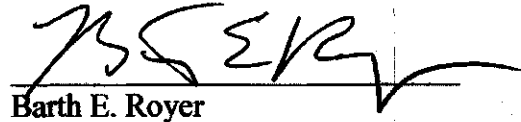
The following assumptions were made:

1. The average PIPP Plus installment will be \$44.00.
2. The average bill for metered usage for a PIPP customer will be \$136.98.
3. The average amount of a write-off of a PIPP account for bad debt will be \$293.47, consisting of 2 PIPP installments and 1.5 bills for metered usage. $(\$44.00 \times 2) + (\$136.98 \times 1.5) = \$293.47$
4. ODOD/OCS will regularly drop accounts that miss consecutive monthly payments from PIPP Plus.
5. The amount written off for bad debt will be reduced by reinstatements equal to 32.92% of the chargeoff amount.
6. The count of accounts written off in an average year will be 18,545.

$$18,545 \times \$293.47 \times (1 - 0.3292) = \$3,650,762.69$$

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing has been served upon the following parties by first class mail, postage prepaid, this 29th day of April 2011.


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