

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of **Ohio** :
Power Company for Authority to : Case No. 13-2385-EL-SSO
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 : Case No. 13-2386-EL-AAM
Accounting Authority. :

**PREFILED TESTIMONY
OF
BARBARA BOSSART
SERVICE MONITORING & ENFORCEMENT DEPARTMENT
RELIABILITY & SERVICE ANALYSIS DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

May 20, 2014

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

2 A. My name is Barbara Bossart. My business address is 180 E. Broad Street,
3 Columbus, Ohio 43215-3793.

4

5 2. Q. By who are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio.

7

8 3. Q. What is your present position with the Public Utilities Commission of Ohio
9 and what are your duties?

10 A. I am the Chief of the Reliability and Service Analysis Division of the
11 Service Monitoring and Enforcement Department. My current duties
12 include the development and enforcement of service reliability and
13 consumer protection policies and rules for gas, water, electric, and
14 telephone services.

15

16 4. Q. Would you briefly state your educational background and work experience.

17 A. I have a bachelor's degree from Marshall University and I have been
18 employed by the Public Utilities Commission of Ohio since 1999. For six
19 years, I worked as an Investigator in the Investigation and Audits Division
20 of the Service Monitoring and Enforcement Department. As an Investi-
21 gator my duties included interacting with the consumers to investigate their
22 concerns about utility companies' policies and practices. I also participated

1 in Customer Service Audits to identify service issues or non-compliance
2 with rules. In May 2005, I was promoted to Utility Specialist 2 in the
3 Reliability and Service Analysis Division of the Service Monitoring and
4 Enforcement Department where I was responsible for analyzing service
5 quality performance as well as for recommending and enforcing service-
6 quality and consumer-protection policies and rules. In January 2013, I was
7 promoted to Chief of the Reliability and Service Analysis Division.
8

9 5. Q. What is the scope of your testimony?

10 A. The scope of my testimony is related to AEP Ohio's (AEP) request to
11 establish a bad debt rider in conjunction with a Certified Retail Electric
12 Supplier (CRES) Purchase of Receivable (POR) program. More
13 specifically, I will be testifying on AEP's collection policies and practices.
14

15 6. Q. What is a POR program?

16 A. A POR program is an agreement between a CRES provider and the utility,
17 whereby the utility purchases - usually at a discounted rate - receivables
18 billed on behalf of the CRES provider by the utility via consolidated
19 billing.
20
21

1 7. Q. Why is AEP asking for a Bad Debt Rider?

2 A. AEP proposes to implement a bad debt rider with an initial POR discount
3 rate of zero. The Company believes that a balance between a stable and
4 predictable discount rate to the CRES providers can be achieved, thus
5 promoting competition in Ohio Electric market, while a bad debt rider
6 ensures that the Company does not incur new uncollectable debt.¹
7

8 8. Q. Why is staff reviewing AEP's collection policies and practices?

9 A. Proper management of collection activities can help control and reasonably
10 maintain bad debt expense. Establishing sound collection procedures and
11 monitoring their implementation will help maintain a reasonable level of
12 bad debt expense.
13

14 9. Q. What information did Staff review to help determine if AEP's credit and
15 collection practices and policies are sound.

16 A. Staff requested AEP's credit and collection policies and procedures,
17 information regarding AEP's outsourced credit and collection functions,
18 write-off policy, performance statistics for outsource collection agencies,

¹ Direct Testimony of Company witness Stacey Gabbard, page 7.

1 criteria and reports used by AEP to evaluate both external and internal
2 collection performances.

3
4 10. Q. Was staff satisfied with AEP's collection policies and procedures based on
5 the information provided by AEP?

6 A. No, AEP's responses did not provide assurances that its collection policies
7 and procedures are sufficient to control its bad debt expense. AEP's
8 proposed Bad Debt Rider would ultimately collect those expenses from
9 customers. Although AEP provided many reports that it produces to
10 monitor its collection practices, it did not provide any criteria or
11 benchmarks it sets to evaluate the performance.

12
13 11. Q. Were you able to determine if AEP's collection practices were helping to
14 maintain a reasonable level of bad debt?

15 A. No. Without knowing what criteria or benchmarks AEP uses to evaluate its
16 performance, it is hard to determine if the reports indicated an effective
17 collection policy and practice. For example, its outsourced collection
18 agencies' percent of outstanding debt collected was 10.2% and 11.8% in
19 years 2012 and 2013, respectively. The reports AEP provided indicated
20 that it monitored its outsourced collection agencies' percent collected;
21 however, the reports did not show what benchmark or criteria AEP uses to
22 evaluate the collection agencies' performance. In the Commission's review

1 of the large gas companies' credit and collection practices in case No. 08-
2 1229-GA-COI, the auditor provided a list of preferred practices for
3 recovery activities, one of those practices was for the utility to oversee the
4 outside collection agency's performance and perform routine audits to
5 ensure compliance with utility standards to ensure the effectiveness of
6 collection activities. The absence of specific evaluation criteria raises
7 questions as to what standards AEP expects its outsourced collection
8 agencies to achieve. Similarly, AEP provided several reports regarding its
9 internal collection activities, but again did not demonstrate any benchmarks
10 or targets it expects its collection personnel to achieve. Without knowing
11 what criteria or benchmarks AEP uses to evaluate its performance, it is hard
12 to determine if the reports indicated an effective collection policy and
13 practice.

14
15 12. Q. What other indicators were used to determine if AEP's collection practices
16 are effective?

17 A. I compared AEP's total billings to its bad debt expense and found that
18 AEP's total billings have decreased by \$547 million between 2011 and
19 2013. However, AEP's bad debt expense increased by \$3.7 million over
20 that same time period.² In addition, I noted that for residential customers,

²

Bad debt increase excludes \$7.2 million Ormet charge-off.

1 the 2013 average 90plus day arrears amount (the amount past due at 90
2 days and over 90 days) is \$185 whereas the average customer
3 disconnection amount is \$380.00. This is an indication that the company is
4 not timely disconnecting customers. A utility company can disconnect a
5 customer, after a 14-day notice, once the customer is considered
6 delinquent.³ A customer is considered delinquent when a bill contains a
7 previous balance, which means a customer is 30 days in arrears. Failure to
8 timely disconnect customers results in an increase in customers' past due
9 amounts thus allowing for a possible larger uncollectable amount. I found
10 a similar pattern with commercial customer data.⁴

11
12 13. Q. Are you concerned with the increase in bad debt?

13 A. Yes, I am concerned that the percent of bad debt increased as AEP's total
14 billings decreased. Especially when taking into consideration that AEP's
15 total customer switching rates, meaning the percentage of customers who
16 shop for generation, has increased from .49% in March 2011 to over 61%
17 in December 2013.⁵

18

3 Ohio Adm. Code 4901:1-18-04

4 Bossart DR 10-004 and DR 10-007.

5 PUCO's "Electric Choice Customer Switch Rates".

1 14. Q. Why are the switching numbers concerning to you?

2 A. AEP is proposing to implement a purchase of receivables program in
3 conjunction with the bad debt rider. Staff is concerned that AEP's total
4 uncollectible expense will increase as AEP assumes the risk for collection
5 of charges which previously were the responsibility of CRES providers.
6 Although the percentage of bad debt may not change, the total amount of
7 the bad debt expense will increase due to the increase in total billings.
8

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

10 A. Yes, the large Ohio regulated gas companies, except Duke, established a
11 bad debt rider in 2003; however, each of those companies had already been
12 purchasing competitive suppliers' accounts receivable at a discount prior to
13 the implementation of the bad debt rider. Duke's electric distribution
14 company established an uncollectible generation rider in 2011; however,
15 prior to that Duke purchased the accounts receivable of CRES providers at
16 a discounted rate.⁶
17

18 16. Q. Why is it important to have a discounted POR program in place before you
19 establish a bad debt rider?

⁶ See *In re Duke Energy Ohio, Inc.*, Case Nos. 11-3549-EL-SSO, *et al.* (Opinion and Order at 32-33) (Nov. 22, 2011).

1 A. Since the supplier's rates are subject to market variables and are not
2 regulated, it is difficult to gauge the potential impact of CRES uncollectable
3 charges on rate payers. A discounted POR program allows the utility and
4 the Commission to gain experience regarding the impact of the
5 uncollectible charges attributable to suppliers on the company's bad debt
6 expense and therefore the potential impact on the rate payers.

7
8 17. Q. What is your recommendation regarding AEP's proposal to implement a
9 bad debt rider in conjunction with a POR program?

10 A. I believe that AEP needs to have established benchmarks and criteria in
11 place to better evaluate and monitor its collection practices before a bad
12 debt rider is considered by the Commission.

13
14 18. Q. Are you opposed to a POR program?

15 A. I am not opposed to a POR program with a discounted rate to mitigate any
16 impact on AEP bad debt and eventually its customers. However, I believe
17 the POR program should exclude large commercial and industrial
18 customers. The potential impact of a large commercial and industrial
19 uncollectible debt is too great of a burden for the residential customer, as
20 evidenced by the increase in AEP's 2013 bad debt expense that included
21 \$7.2 million associated with a industrial companies charge-off. In the POR
22 program, suppliers are able to enroll riskier customers as the responsibility

1 for supplier uncollectable is shifted to AEP. Because the Commission does
2 not regulate the rates of suppliers, the impact of that risk is unknown. Staff
3 witness Patrick Donlon will discuss Staff's position on POR in further
4 detail.

5
6 19. Q. Does this conclude your testimony?

7 A. Yes, it does. However, I reserve the right to submit supplemental testi-
8 mony as described herein, as new information subsequently becomes avail-
9 able 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 **Barbara Bossart** 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

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This foregoing document was electronically filed with the Public Utilities

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5/20/2014 2:50:56 PM

in

Case No(s). 13-2385-EL-SSO, 13-2386-EL-AAM

Summary: Testimony Prefiled Testimony of Barbara Bossart submitted on behalf of the Staff of the Public Utilities Commission of Ohio by Assistant Attorney General Devin Parram electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio