

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	:	Case No. 14-1002-EL-USF
Universal Service Fund Riders of	:	
Jurisdictional Ohio Electric Distribution	:	
Utilities.	:	

TESTIMONY

OF

RANDALL HUNT

ON BEHALF OF
THE OHIO DEVELOPMENT SERVICES AGENCY

October 31, 2014

TESTIMONY OF RANDALL HUNT
On Behalf of The Ohio Development Services Agency

Q. Please state your name and business address.

A. My name is Randall Hunt. My business address is Ohio Development Services Agency ("ODSA"), 77 South High Street, 25th Floor, Columbus, Ohio 43216-1001.

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

A. I am employed by ODSA as Deputy Chief of the Office of Community Assistance ("OCA"), an office within ODSA's Division of Community Services.

Q. Please briefly describe your professional experience and educational background.

A. Although I have only been with ODSA as OCA's Deputy Chief since September of 2012, I have over 25 years of experience in administering local, state, and federal community development and anti-poverty programs. I began my professional career in 1989 as a regional planner for the Ohio Valley Regional Development Commission. From 1994 to 1999 I served as Assistant Director, then as Director, of Ohio Department of Development's Governor's Office of Appalachia. In that position I was responsible for the administration of the Federal Appalachian Regional Commission programs designed to address the economic and social development needs in 13 federally-designated Appalachian states, including the Appalachian counties in Ohio. I then served for two years as the Executive Director of the Ohio Rural Development Partnership at the Ohio Department of Agriculture before being appointed to the position of State Director of the United States Department of Agriculture's Rural Development Agency. In that position, I

1 was responsible for the administration of federal loans, grants, and loan guarantees for low
2 income housing, water and sewer utilities, community facilities, and business loans in
3 eligible rural areas in Ohio. From 2009 to September 2012, I served as the State Director
4 of the Rural Community Assistance Program at Wood, Sandusky, Ottawa and Seneca
5 Community Action Commission. I hold a Bachelor of Science degree from The Ohio
6 State University College of Engineering.

7 **Q. What are your duties and responsibilities as OCA's Deputy Chief?**

8 A. OCA administers a number of energy assistance programs for low-income utility
9 customers, including the federally-funded Low-Income Home Energy Assistance Program
10 ("LIHEAP"), Home Weatherization Assistance Program ("HWAP"), Community Service
11 Block Grant program, State Energy Program, Ohio Coal Research and Development
12 Program, Alternative Fuels Transportation Program, Alternative Storm Water
13 Infrastructure Loan and Brownfield Funds, and, in addition, the electric Percentage of
14 Income Payment Plan ("PIPP") program, which is funded from the state treasury's
15 Universal Service Fund ("USF"). As Deputy Chief, I have overall responsibility for
16 administering the funds that support these programs. I also have management
17 responsibility for the day-to-day operations of OCA, which now has 86 full-time
18 employees.

19 **Q. Have you previously testified before this Commission?**

20 A. Yes. I presented testimony on behalf of ODSA in previous USF rider rate adjustment
21 proceedings, Case Nos. 12-1719-EL-USF and 13-1296-EL-USF.

1 **Q. What is the purpose of your testimony in this case?**

2 A. The purpose of my testimony is to support the \$4,777,725 allowance for costs associated
3 with ODSA's administration of the PIPP program that has been included in the USF rider
4 revenue requirement proposed by ODSA in its application in this case.

5 **Q. What standard did you employ in determining the proposed allowance for**
6 **administrative costs associated with the PIPP program?**

7 A. The Office of the Ohio Consumer's Counsel ("OCC") entered into a settlement agreement
8 in the Notice of Intent ("NOI") phase of Case No. 05-717-EL-UNC with the Ohio
9 Department of Development ("ODOD"), now known as ODSA. (To avoid confusion in
10 this proceeding, I will refer to ODSA throughout my testimony even though it was actually
11 known as ODOD during relevant periods of time.) The settlement agreement provided,
12 among other things, that in future USF rider rate adjustment applications, the proposed
13 allowance for administrative costs would be based on the costs actually incurred during the
14 test period, subject to adjustment(s), plus or minus, for reasonably anticipated post-test
15 period cost changes, so as to assure, to the extent possible, that the administrative cost
16 component of the USF rider revenue requirement will recover the administrative costs
17 incurred during the collection year. This standard for determining the allowance for
18 administrative costs was approved by the Commission in the 2005 case, and was employed
19 by ODSA in all subsequent USF rider rate adjustment proceedings. This standard was
20 again approved by the Commission in its September 25, 2014, opinion and order in the
21 NOI phase of this case. Accordingly, I determined the proposed allowance for

1 administrative costs using this standard.

2 **Q. How did you identify the costs actually incurred by ODSA during the test period in**
3 **connection with its administration of the PIPP program?**

4 **A.** It is my understanding that the approved test period in this case is calendar year 2014.

5 However, ODSA's accounting is based on the state fiscal year ("FY"), which is the twelve
6 months ending June 30, not the calendar year. Thus, I relied on OCA's FY 2014 (the
7 twelve months ending June 30, 2014) accounting records to identify the costs actually
8 incurred by ODSA in connection with the administration of the PIPP program during FY
9 2014. Because the actual costs for calendar 2014 are not yet known, consistent with the
10 practice in prior cases, I utilized the actual costs incurred in the most recent fiscal year as a
11 surrogate for the test-period PIPP administration costs.

12 **Q. You indicated that OCA has responsibilities other than the administration of the**
13 **PIPP program. For accounting purposes, how does OCA distinguish between the**
14 **costs incurred in connection with its administration of the PIPP program and the**
15 **costs associated with these other activities?**

16 **A.** The method used depends on the nature of the costs involved. As shown in Exhibit RH-1
17 to my testimony, OCA breaks its costs down into six categories for accounting and budget
18 purposes: (1) Payroll, (2) Temp Staff / Consultants / Mail Services, (3) Electric
19 Distribution Utility Audit, (4) Indirect Costs, (5) Direct Support Services (6) Maintenance.
20 It should be noted that category (5) Direct Support Services, did not exist in the State
21 Fiscal Year 2014 Actual Expenditures. ODSA recently revised the internal Indirect Cost

1 Pool structure, and as seen in the Admin Budget for SFY 2015 in Exhibit RH-1, the
2 Indirect Cost pool is now subdivided into Indirect Costs and Direct Support Services. In
3 some instances, costs are directly assigned to PIPP administration, while, in others, costs
4 are allocated to PIPP administration based on OCA's estimates of the portion of the total
5 costs in the category that relate to this function. The costs identified in the column headed
6 FY 2014 Actual Expenses are the costs in each internal category that were coded by OCA
7 as PIPP administrative costs when they were entered into the state accounting system
8 during FY 2014. I would point out that PIPP administrative costs make up a relatively
9 small percentage of OCA's total costs and budget.

10 **Q. What costs are included in the Payroll category?**

11 A. The Payroll category includes the salaries and employee benefits for the members of the
12 OCA staff.

13 **Q. Do OCA staff members report their time in a manner that permits OCA to track the**
14 **employee hours that are chargeable to PIPP administration as opposed to other OCA**
15 **activities?**

16 A. OCA staff members in the Administrative and Support Unit, the Fiscal Unit, Grantee
17 Services Unit, and the Field Unit, must estimate the percentage of the time to be coded to
18 PIPP administration based on an exercise of informed judgment as to the hours the
19 employees devote to PIPP-related matters as opposed to other activities. The \$989,158
20 that was coded to PIPP administration in FY 2014 represents approximately 25 percent of
21 the total OCA payroll costs for that period.

1 **Q. What costs are included in the Temp Staff / Consultant / Mail Services category?**

2 A. “Temp Staff” refers to the temporary employees OCA hires to augment its full-time staff
3 during periods of high volume PIPP enrollment activity. These temporary workers answer
4 the OCA telephone hotlines to provide information regarding the PIPP and LIHEAP
5 assistance programs. The Temp Staff costs associated with the operation of the hotline are
6 coded to PIPP administration based on the percentage of PIPP-related calls to total calls to
7 the hotline. The “Consultants” component includes costs incurred by OCA in FY 2014 for
8 outside professional services, including legal services, in connection with its
9 administration of the PIPP program. Consultant costs that can be directly assigned to PIPP
10 administration are so coded when they are entered into the state accounting system.
11 However, where professional consulting services benefit more than one program, the costs
12 are allocated between or among the programs based on an exercise of judgment, taking
13 into account the funds available to the respective programs. “Mail Services” costs are the
14 costs associated with mail opening, document imaging, and keying in information in
15 connection with processing applications. OCA contracts these services out to third-party
16 vendors. For accounting purposes, these costs are allocated to PIPP administration based
17 on the number of PIPP applications received versus the total number of applications
18 received.

19 **Q. A line item in Exhibit RH-1 is titled Indirect Costs. What are Indirect Costs?**

20 A. The Department of Energy (“DOE”) approves the percentage of payroll that OCA pays to
21 ODSA as a contribution to ODSA’s general operating costs. This percentage of payroll is

1 referred to as Indirect Costs. The specified payroll percentage for FY 2014 was 66.21
2 percent. However, applying this percentage to the PIPP-related payroll cost for FY 2014
3 will not produce the PIPP-related Indirect Costs actually incurred during FY 2014 because
4 these payments are not made to ODSA until the quarter following the quarter in which the
5 payroll costs are incurred. Accordingly, the \$648,143.52 figure shown in Exhibit RH-1
6 represents the total payments for PIPP-related Indirect Costs actually made to ODSA
7 during FY 2014, and is not the product of applying the specified percentage to the OCA
8 PIPP-related payroll costs incurred during that period.

9 **Q. What costs are included in the Maintenance category?**

10 A. The Maintenance category includes the cost of supplies, communications services,
11 equipment such as computer hardware/software replacement or upgrade, printing,
12 communications, supplies, Ohio Shared Services processing fees, travel, computer
13 software license renewal fees, and the like necessary for OCA's day-to-day operations.
14 The \$159,636.38 shown in Exhibit RH-1 for this line item is the portion of OCA's total
15 maintenance costs coded to PIPP administration during FY 2014.

16 **Q. What was the total cost actually incurred during FY 2014 in the OCA internal cost**
17 **categories in connection with its administration of the PIPP program?**

18 A. As shown in Exhibit RH-1 to my testimony, the total actual cost coded to PIPP
19 administration in these internal OCA categories during FY 2014 was \$3,140,896.61.

20 **Q. Exhibit RH-1 also includes a line item entitled Local LIHEAP Providers Costs.**
21 **What do these costs represent?**

1 A. As ODSA explained in testimony in Case No. 10-725-EL-USF, OCA has grant
2 agreements in place with 51 Local LIHEAP Providers, the vast majority of which are
3 Community Action Agencies. These agreements represent a total cost of some \$20.7
4 million. These agreements provide that the agencies will assume responsibility for
5 essentially all customer intake, enrollment, reverification, and education activities relating
6 to the PIPP and LIHEAP programs. Prior to FY 2011, OCA was able to utilize other
7 sources of funding to meet its total contractual obligations to these agencies. However,
8 subsequent reductions in the funding available through these other sources, particularly
9 LIHEAP, forced OCA to rely almost exclusively on USF rider revenues to pay the portion
10 of the total obligation that relates specifically to the enrollment, reverification, and
11 educational activities associated with these programs. Thus, in Case No. 10-725-EL-USF,
12 ODSA developed an alternative basis for determining an appropriate allowance for these
13 electric PIPP-specific costs. OCA charged the state's natural gas utilities an \$8 fee per
14 application for re-verification of a customer's eligibility for the gas PIPP program, which
15 was consistent with the fee charged by the third-party vendor that manages the low-income
16 customer assistance programs offered by certain Ohio electric distribution utilities.
17 Because electric PIPP customers also have to re-verify annually, ODSA multiplied the
18 then-current number of electric PIPP households by \$8 to produce the allowance for this
19 item proposed in Case No. 10-725-EL-USF. ODSA used this same methodology in its
20 2011 and 2012 USF rider rate adjustment proceedings to identify the PIPP-related portion
21 of the total agency obligation.

1 **Q. Have you used this methodology again in this case?**

2 A. I used this methodology to calculate the portion of the total agency contract obligation
3 relating to the electric PIPP and LIHEAP activities described above. Multiplying the
4 average monthly number of electric PIPP households in FY 2014 – 377,315 – by \$8
5 produces an indicated FY 2014 cost of \$3,018,520 for these activities. However, in FY
6 2014, sufficient LIHEAP funding was available to support one-half of this amount. Thus,
7 the \$1,509,260 shown in Exhibit RH-1 to my testimony as the FY 2014 actual expense for
8 Local LIHEAP Providers Costs line item reflects a 50-50 allocation of the indicated cost
9 of these activities between electric PIPP and LIHEAP.

10 **Q. You indicated that, under the approved methodology, the proposed allowance for**
11 **administrative costs is to be based on costs actually incurred during the test period,**
12 **subject to such adjustment(s), plus or minus, for reasonably anticipated post-test**
13 **period cost changes as may be necessary to assure, to the extent possible, that the**
14 **administrative cost component of the USF rider revenue requirement will reflect the**
15 **administrative costs incurred during the collection year. Are you proposing any such**
16 **adjustments in this case?**

17 A. As I indicated, the costs shown in the FY 2014 Actual Expenses column in Exhibit RH-1
18 are the costs actually incurred by OCA in connection with PIPP administration during FY
19 2014, which is the twelve-month period ending June 30, 2014. However, if the
20 administrative cost components of the USF rider rates established in this case are to reflect
21 the costs that will be incurred during the period the new USF rider rates will be in effect,

1 reasonably anticipated post-June 30, 2014 cost changes must be recognized. To
2 accomplish this, I have relied on the OCA budget for PIPP-related costs for the state's
3 2014 fiscal year as the starting point for determining the proposed allowance for
4 administrative costs in this case.

5 **Q. Why is it appropriate to utilize the FY 2015 budget amount for PIPP administration**
6 **as the starting point for the proposed allowance for OCA administrative costs for**
7 **purposes of this case?**

8 A. The goal in preparing the budget is to project, as accurately as possible, the cost OCA will
9 incur for PIPP administration over the next year. This is the same goal we are trying to
10 achieve in developing the allowance for administrative costs to be included in the USF
11 rider revenue requirements in this case. The FY 2015 budget amount for PIPP
12 administrative costs represents our best estimate of those costs, and, thus, is the
13 appropriate starting point for establishing the administrative cost component of the USF
14 rider revenue requirement. Although the FY 2015 budget amount for OCA's internal PIPP
15 administration is very close to the actual FY 2014 total cost of its internal PIPP
16 administration (an increase of only approximately 1.7%), there are some minor differences
17 in certain of the underlying cost categories.

18 **Q. How did OCA develop the FY 2015 budget for Payroll and Indirect Costs?**

19 A. OCA has used the projected PIPP-related Payroll cost, \$960,066, a decrease in FY 2015
20 due to staff reduction. Therefore, as I previously explained, the Indirect Costs are tied to
21 the Payroll cost, so the \$648,143.52 FY 2014 budget amount for Indirect Cost is simply

1 the result of applying the FY 2014 DOE approved 66.21 percent contribution factor to the
2 \$1,027,958.76 budgeted for PIPP-related payroll.

3 **Q. The FY 2015 budget amount of \$110,000 for the Maintenance line item shown in**
4 **Exhibit RH-1 also appears to be based on the \$159,936.38 in expenses actually**
5 **incurred in this category in FY 2014. Is that the case?**

6 A. Yes. It should be noted that the FY 2015 budgeted expenses are less than FY 2014 actual
7 expenses as the computer upgrades completed in FY2014 are excluded in FY 2015.

8 **Q. What is the total amount of the OCA's FY 2015 budget for its internal PIPP-related**
9 **administrative cost categories?**

10 A. As shown in Exhibit RH-1, the total FY 2015 budget for these costs is \$3,140,229 which
11 is slightly less than the \$3,140,896.61 actually incurred in these categories in FY 2014.

12 **Q. Exhibit RH-1 indicates that OCA expects an increase in Local LIHEAP Providers**
13 **Costs – \$1,637,496 budgeted for FY 2015, versus \$1,509,260 actually incurred in FY**
14 **2014. Please explain the reason for this increase.**

15 A. As I previously explained, the Local LIHEAP Providers Costs listed in the FY 2014 actual
16 expense column is the result of multiplying the average monthly number of active PIPP
17 households during FY 2014 by a cost of \$8 per reverification and dividing the result by
18 two to allocate one-half of the cost to LIHEAP. OCA used the EXEL trend function to
19 project the average monthly number of active PIPP households in FY 2015 and multiplied
20 the resulting 409,374 households by \$8, which produced an indicated FY 2015 agency
21 obligation for the cost of customer intake, enrollment, reverification, and education

1 activities relating to the PIPP and LIHEAP programs of \$3,274,992. That figure was then
2 divided by two to reflect a 50-50 allocation of the costs between electric PIPP and
3 LIHEAP, resulting in the FY 2014 budget estimate of \$1,637,496 shown on Exhibit
4 RH-1.

5 **Q. How was the total allowance for PIPP-related administrative costs proposed in**
6 **ODSA's application in this case determined?**

7 A. As shown in Exhibit RH-1, the total proposed allowance of \$4,777,725 is the sum of the
8 FY 2015 budgeted amounts for the internal OCA cost categories and the estimate of the
9 FY 2015 Local LIHEAP Providers contract costs attributable to electric PIPP-specific
10 activities.

11 **Q. Is the total allowance proposed in this case for OCA PIPP-related administrative**
12 **costs the minimum amount necessary to support these administrative functions?**

13 A. Yes. Exhibit RH-1 breaks down costs into two broad components: (1) OCA Internal
14 Costs and (2) Local LIHEAP Provider Costs. The OCA's budgeted internal cost for FY
15 2015 is \$3,140,229. This amount is LESS than OCA's actual internal costs of
16 \$3,140,896.61 for FY 2014. In addition, the increase in Local LIHEAP Provider costs is a
17 function solely of increased projected PIPP enrollment over which OCA lacks control.
18 However, as in FYs 2013 and 2014, OCA will be able to reduce these costs by allocating
19 one-half of the HEAP Local Providers costs to LIHEAP. In my view, the fact that OCA
20 has been able to hold the line on its total PIPP-related administrative costs in this fashion

1 despite the significant year-over-year increases in PIPP enrollment is a clear indication that
2 OCA takes its responsibility to contain costs very seriously.

3 **Q. Does this conclude your testimony?**

4 A. Yes. However, I reserve the right to supplement my testimony if, contrary to my
5 expectation, ODSA submits an amended application in this case.

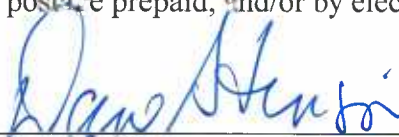
**Ohio Development Services Agency
Division of Community Development
Office of Community Assistance**

PIPP-Related Administrative Costs

OCA Internal Cost Category	FY 2014 Actual Expenses	FY 2015 Admin Budget
Payroll	\$1,027,958.76	\$ 960,066
Temp Staff / Consultants / Mail Services	\$ 1,239,967.96	\$ 1,150,000
Electric Distribution Utility Audit	\$ 65,190	\$35,870
Indirect Cost	\$ 648,143.52	\$464,960
Direct Support Services	N/A	\$419,333
Maintenance	\$ 159,636.38	\$ 110,000
Subtotal	\$ 3,140,896.61	\$ 3,140,229
Local LIHEAP Provider Costs (Enrollment, Reverification, Education)	\$ 1,509,260	\$ 1,637,496
Total FY 2014 Actual Expenses	\$ 4,650,156.61	
Total Proposed Admin Allowance		\$ 4,777,725

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Testimony of Randall Hunt* has been served upon the following parties by first class mail, postage prepaid, and/or by electronic mail this 31st day of October 2014.



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Summary: Testimony of Randall Hunt on Behalf of The Ohio Development Services Agency
electronically filed by Teresa Orahod on behalf of Dane Stinson