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BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

CASE NOS. 03-2341-EL-ATA
03-2405-EL-CSS
04-85-EL-CSS

DIRECT TESTIMONY
OF H. EDWIN OVERCAST
IN OPPOSITION TO THE COMPLAINTS OF
DOMINION RETAIL, INC. AND MIAMI VALLEY COMMUNICATIONS COUNCIL

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

2 A. My name is H. Edwin Overcast. My address is P. O. Box 390427, Snellville,
3 Georgia 30039.

4 **Q. Please state your business affiliation and position.**

5 A. I am employed by R. J. Rudden Associates, Inc. as a Vice President.

6 **Q. Please summarize your educational and professional experience.**

7 A. A detailed summary of my educational and professional experience is provided in
8 Schedule HEO-1 to this testimony. I have a B. A. degree in economics from King
9 College and a Ph.D. degree in economics from Virginia Polytechnic Institute and
10 State University. I have been employed in the energy industry for almost 30 years
11 in various rate, regulatory and planning positions. In my various positions, I have
12 testified before state and federal regulatory bodies, state and federal legislative
13 bodies and in various courts. I have testified on a number of matters including
14 deregulation and competition. I have previously testified on the issues presented
15 in this testimony including competitive provision of customer care services. In
16 addition to testimony experience related to customer care, I have participated in
17 due diligence relative to the acquisition of a customer care service provider, the
18 review and analysis of providing customer care from third party vendors and
19 development of evidence relative to market price and availability of customer care
20 services.

21 **Q. On whose behalf are you presenting this testimony?**

22 A. I am presenting testimony on behalf of The Dayton Power and Light Company
23 ("DP&L" or the "Company").

24 Q. **What is the purpose of your testimony?**

25 A. The purpose of my testimony is to present evidence regarding the market-based
26 prices for customer care services.

27 Q. **What conclusions have you reached regarding market prices and competitive**
28 **customer care services?**

29 A. There are numerous vendors providing a range of services related to customer
30 care. Some of the vendors provide a fully integrated package consisting of billing;
31 bill print, sort, drop and mail; remittance processing and call center services.
32 Other vendors provide one or more of these services separately. Utilities and
33 marketers purchase these services from vendors in whole or in part today. The
34 price of customer care service reflects the scale of operation with declining unit
35 costs as the number of customers increase.

36 Q. **Have you prepared a report presenting your findings relative to customer**
37 **care services?**

38 A. Yes. Attached as Schedule HEO-2 is a copy of a report entitled "Report on
39 Pricing Customer Care: Market Based Prices for Customer Service and Billing"
40 that provides my findings and conclusions based on a survey of vendors.

41 Q. **Please summarize your findings.**

42 A. The prices proposed by DP&L for providing billing and customer contact service
43 are below the competitive market price and include more favorable terms,
44 specifically, a shorter contract requirement to receive the most favorable price. I
45 suspect that the price offered by the Company is not sustainable without a subsidy
46 from the regulated portion of the business. I base this conclusion on the size of the
47 Company compared to certain of the vendors surveyed in the report. Given the
48 scale of the vendors and the specialization in customer care services, it is not
49 likely that an electric utility the size of the Company would have the specialized
50 resources to offer a price below the market. Further, it is my experience that even
51 a utility serving over one million customers using a new and technologically up-
52 to-date billing system could not provide this service at a price that reflected the
53 competitive market price.

54 Q. Does this complete your testimony?

55 A. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of the Direct Testimony of H. Edwin Overcast on
Behalf of The Dayton Power and Light Company has been served via the method
indicated, upon the following counsel of record, this 22d day of September, 2004:

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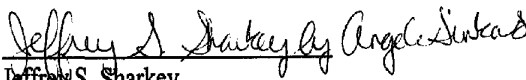

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EXHIBIT HEO-1

DR. H. EDWIN OVERCAST

Educational Background and Professional Experience

Dr. Overcast graduated cum laude from King College with a Bachelor of Arts Degree in Economics. He received the Doctor of Philosophy Degree in Economics from Virginia Polytechnic Institute and State University. His principal fields of study included Economic Theory, Public Finance and Industrial Organization, with supporting fields of study in Econometrics and Statistics. He has taught courses at both the graduate and undergraduate level in Micro-economic Theory, Managerial Economics and Public Finance. In addition, he has taught courses in Mathematical Economics, Economics of Regulation and Money and Banking. While a faculty member at East Tennessee State University, he was appointed to the Graduate Faculty and subsequently directed thesis programs for graduate students.

In 1975, he joined the Tennessee Valley Authority (TVA) as an Economist in the Distributor Marketing Branch. He held successively higher positions as an Economist in the Rate Research Section of the Rate Branch and was ultimately Supervisor of the Economic Staff of the Rate Branch.

In May of 1978, he joined Northeast Utilities as a Rate Economist in the Rate Research Department and was promoted to Manager of Rate Research in November 1979. In that position, he was responsible for the rate activities of each of the operating companies of Northeast Utilities: Western Massachusetts Electric Company, Holyoke

Water Power Company, Holyoke Power and Electric Company, The Connecticut Light and Power Company, and the Hartford Electric Light Company.

In March 1983, Dr. Overcast became Director of the Rates and Load Research Department of the Consumer Economics Division of Northeast Utilities. In this position, Dr. Overcast directed the planning of analyses and implementation of system-wide pricing and costs for regulated and unregulated products and services of Northeast Utilities. As part of that responsibility, Dr. Overcast represented the system companies before state and federal regulator, legislative bodies and other public and private forums on matters pertaining to rate and cost-of-service issues.

Dr. Overcast represented Northeast Utilities as a member of the Edison Electric Institute (E.E.I.) Rate Committee and the American Gas Association (A.G.A.) Rate Committee. While serving on those committees, he was the Rate Training Subcommittee Chairman of the A.G.A. Rate Committee. He has been an instructor on cost-of-service and federal regulatory issues for the E.E.I. Rate Fundamentals Course and the E.E.I. Advanced Rate Course. Dr. Overcast also represented Northeast Utilities as a member of the Load Research Committee of the Association of Edison Illuminating Companies.

In March 1989, he joined Atlanta Gas Light Company as Director - Rates and was promoted to Vice President - Rates in February 1994. In November 1994 he became Vice President - Corporate Planning and Rates and was subsequently elected Vice President - Strategy, Planning and Business Development for AGL Resources, Inc., the parent company of Atlanta Gas Light Company. His responsibilities in the various rate positions

Included: designing and administering the Company's tariffs, including rates, rules and regulations and terms of service. He represented the Company before regulatory commissions on rate and regulatory matters and oversaw the preparation of the Company's forecast of natural gas demand. He was responsible for planning activities relating to the regulated businesses of the Company. He developed strategy for both regulated and unregulated business units, monitored markets for new products and services and identified potential new business opportunities for the Company.

Dr. Overcast has previously testified in rate cases and other proceedings before the Connecticut Department of Public Utility Control, the Massachusetts Department of Public Utilities, the Georgia Public Service Commission, the Montana Public Service Commission, the Kansas Corporation Commission, the Alberta Energy and Utilities Board and the Tennessee Regulatory Authority and the Federal Energy Regulatory Commission. He has also testified before the subcommittee on Energy and Power of the U.S. House of Representatives and various committees of the Georgia General Assembly.

Dr. Overcast joined R. J. Rudden Associates, Inc. as Vice President in September 1999, his current position. He is responsible for the open access and unbundling practice area and provides economic and regulatory consulting to clients of the firm.

Dr. Overcast has served as an instructor in both the A.G.A. and EEI Rate Fundamentals Course, the AGA and EEI Advanced Rate Course and the S.G.A. Intermediate Level Rates Course.

EXHIBIT HEO-2

**Report on Pricing Customer Care:
Market Based Prices for Customer Service and Billing**

By H. Edwin Overcast

R. J. Rudden Associates, Inc.

Executive Summary

The provision of billing and customer service for utilities and marketers is a competitive service. There are a number of vendors who provide this service. The market price for this service depends on a number of factors including the scale (number of customers) of the utility or marketer, the term of the contract for service and the requirements to transfer data from the client to the vendor. As scale increases, unit costs decline. As contract term increases, unit costs decline. As the complexity of data interface increases, unit costs increase. Based on a survey of vendors, the cost of customer service and billing ranges from \$1.44 to \$ 3.54 per customer per month with a median of \$ 1.95 per month based on 100,000 customers being served for a single client. Serving multiple clients whose total customer count is 100,000 would result in higher unit costs based on scale factors.

Introduction

Customer service and billing consists of a number of specific activities including the following related to billing and bill inquiry:

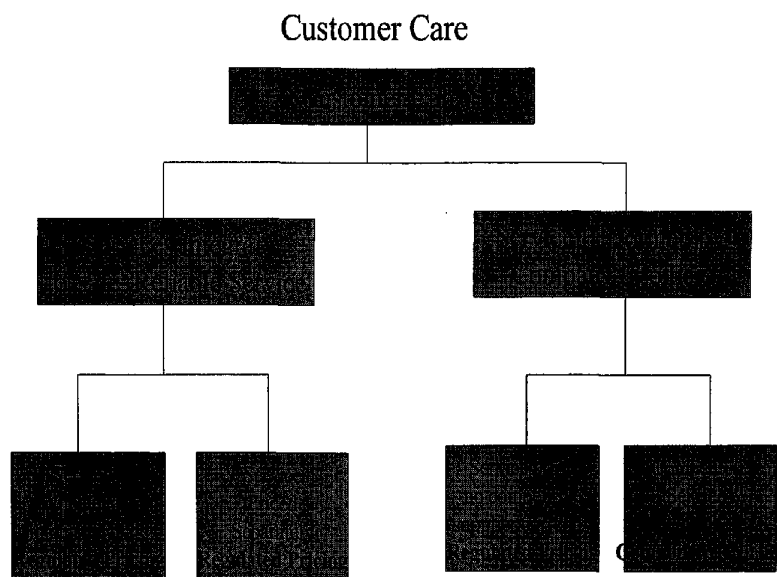
1. Customer contact;
2. Billing; and
3. Customer Information System for records and payment history.

This report provides a detailed description of these activities, the results of a survey designed to provide market-based pricing for these services and a summary of the state of competition relative to the provision of customer service and billing.

In considering customer care for unbundled electric or gas utilities where there is competition for the commodity, it is useful to have as a basis a theoretical model that

HEO-2

permits market participants and regulators to assess the various activities that make up customer care and to determine the proper pricing of these services. The following model allows for an assessment and pricing of the various components.



Under this model, the review of any particular customer care service first determines if the service is related directly to safety or reliability. Such services include turning service on and off, answering calls related to system operation such as service outages, downed power lines, smelling gas and other possible safety and reliability related issues. If the service is not related to safety or reliability, there is the potential that the service may be provided by the utility or another party.

Customer service and billing on behalf of retail marketers may be provided either by the utility or through third party providers. In fact, the market for the portion of customer care related to customer service and billing is competitive. Many utilities and marketers provide these services through a third party. There are major vendors who, on their own

or through partnerships with utilities, provide the billing and customer care service. The extent of such services varies depending on the utility. In some cases the third party provides the entire scope of customer care service and in others a vendor provides only a portion of the service.

Several initial observations relative to customer service and billing provide context for any analysis. First, there are significant scale economies associated with these services. That is, on a cost per customer basis, the unit cost declines as the number of customers increase. Based on experience reviewing this issue, the market-based cost for a small number of customers, say 50,000 could be three times as high as the cost for one million customers. As scale continues to increase beyond one million customers, the cost per customer declines marginally as the average cost curve begins to flatten out. Second, in a deregulated market, it is in the marketers interest to have as many services as possible provided at no charge by the utility. Where these services have no cost to the marketer, the potential for profitable short-term market entry increases and marketers do not bear the risk of managing the services the utility provides. In the long run, there is no reason to believe that artificial subsidies, such as free or below cost service provided by the utility will be sustainable. Third, successful customer service and billing is critical to the long-run success of retail competition because it becomes an important part of branding service and for retaining customers. In most competitive retail markets, customer retention enhances the profitability of the competitors who minimize churn.

Summary

Based on the survey responses and other data, it is reasonable to conclude that the provision of customer service and billing is subject to intense competitive pressures. The market price for the provision of customer contact and billing is about \$ 1.95 per customer per month excluding fixed fees and the amortization of start up costs. Lower costs occur for larger scale and for longer contract terms. Based on limited empirical information, the delivered cost of customer care service approaches \$3.00 per customer per month. Additionally, based on experience related to other jurisdictions, due diligence for acquisition of a customer care service provider and reviewing proposals for

outsourcing suggests that costs in the range of two to three dollars represents a reasonable market price for the provision of service to 100,000 customers. Importantly, the cost of providing customer service and billing for 100,000 customers served by multiple marketers, as opposed to a single marketer, is higher than these numbers suggest.

Description of Customer Service and Billing Services

For the purposes of this report the relevant customer service and billing services are those associated with billing and the customer service related to billing. The following is a brief summary of the activities that constitute each aspect of customer service and billing.

Customer contact consists of communication with the customer primarily by phone or in writing related to questions regarding a bill, payment history, collection and other issues regarding the bill such as high bill complaints. Customer contact service is expanded as markets open to competition related to requests to switch providers and inquiries related to competition. Customer contact may include live Customer Service Representatives (CSRs), online help resources and interactive voice response. Call center services also include:

- Billing inquiries
- Payment arrangements
- Credit and collections
- Account acquisition
- Promotional selling and up-selling/cross-selling
- Inquiries/quality assurance
- Customer surveys
- Exception processing

Billing includes the transfer of meter data, calculating, preparing, printing, stuffing, sorting and mailing the customer bills together with the accounting controls to assure that bills are rendered accurately. This billing function may separate the calculation and

accounting control functions from the print, finish sort and drop functions of the billing process. Many smaller utilities provide a billing tape to a third party to provide the printing and mailing portion of the billing process. Electronic bill presentment and payment (EBPP) is an optional service that offers added customer convenience. With EBPP customers have instant access to information they need, when they need it. With this service customers can view their statement, make payments via funds transfer or credit card and adjust services as they choose.

There are a number of vendors who provide customer service and billing service for utilities and other companies. For example, there are mail houses that print, stuff, sort and mail bills for clients in financial services, insurance, cable television, telephone and other utilities. The vendors specialize in a portion of the billing process and some vendors are much larger than even the largest utility. There are also multiple vendors for other parts of the customer service and billing function and some of these are larger than the typical utility as well. Some vendors provide all of these functions on an integrated basis and in other cases provide only a portion of the service. For example, Accenture and Capgemini provide out-sourced customer service and billing under contract to electric utilities that includes all of the services discussed above.

Market Price Survey

Vendors are reluctant to quote a specific price for the services they provide. Further, there are many factors that impact the final price that results from a competitive bid to have these services available. Factors that influence the price for customer service and billing include the scale of operation, the complexity of the effort, the cost of interfacing with the utility systems, the amount of both the initial and ongoing training needed to support the service provided, the required investment in equipment or software to provide the service and other factors. For example, consider a call center operation where the costs are a function of specific call-arrival patterns, service-level targets, and local labor costs. The use of technology also influences call center costs and the most important driver remains the scale of the operation. The importance of scale drives the call center cost per

hour of time down by more than half as volume increases. There are several ways that call center costs are recovered including per hour of calls and per call.

To develop a survey of market prices for these services, a comprehensive list of vendors was developed. The vendor list included companies that provided one or more of the services related to customer service and billing. Vendors were surveyed by phone to obtain an estimated price for the services identified above. The vendors were asked to provide an estimate of the cost for a utility to outsource these services for 100,000 customers. Although most vendors are reluctant to quote a final price for these services, it is possible to obtain a range based on their experience for evaluation purposes. The following tables provide the market pricing information in summary format. The companies, at their request are not identified with the pricing estimates in order to protect their competitive position in the market. Table 1 provides the summary of customer billing service and Table 2 provides call center service.

Table 1
Customer Billing System

CIS Companies	Price/Cust	NOTES
A	\$.50-1.25 per Customer per month	3-5 year contract average term
B	\$.50-.75 per Customers per month.	3-5 year contract average term
C	\$.30-.40 per Customers per month.	3-10 year contract term
D	\$.50-.80 per Customers per month.	3-10 year contract term

Table 2
Call Center

Call Center	Price/Hour	Price :Other
A	Rates of \$60-70 per hour.	Average Cost per Call 3.50

B	Rates of \$45-50 per hour.	Average Cost per Call 2.74
C	N/A	Average Cost per Call \$3.20-5.20
D	N/A	Average Cost per Call \$3.00-5.50

As one might expect, numerous individual circumstances impact the final market prices for customer service and billing. Respondents to the survey identified the issues significant to them as they provided the price estimates in the table. For example, the vendors recognize that there is a cost to interface with the utility systems. These costs are either charged up front as a start up fee or amortized into the unit price over the contract term. These costs may be quite significant and are not reflected in the operating prices contained in the table because the nature of the costs requires detailed information systems data and analysis that is determined through specific questions related to the interface. Further, call center costs per call reflect an assumption of a three-minute average call for a bill inquiry. During the transition from regulation to competition both the frequency and duration of calls increases for explanation and enrollment that further increases the cost of call center activities. Therefore, it is necessary to adjust call center costs up to reflect the average call length of five minutes. The lowest cost per call of \$2.74 would increase to \$4.57 based on the longer call length.

From the above tables, we are able to develop an estimate of the market price for customer service and billing for about 100,000 customers as follows:

Table 3
Summary Information

Service	Low	High	Median
Billing	\$ 0.30	\$1.25	\$ 0.50
Call Center*	1.14	2.29	1.45
Total	\$ 1.44	\$ 3.54	\$ 1.95

The range for entire package of the customer service and billing function falls between \$1.44 and \$ 3.54 per customer per month depending on the combination of vendors and

the assumptions related to service level. The median price is most reflective of actual market conditions and under the assumptions used to develop the range of per customer costs equals \$ 1.95. In all of this analysis, we have assumed that billing is monthly, the utility receives about three calls per customer per year, the average call length is five minutes and that there are no start-up costs or annual fees associated with the service. Since both start-up costs and annual fees exist, the estimated range of costs is likely to be conservative. Further, experience demonstrates that the opening of a market to competition increases activities related to call centers by up to twice the normal level and we have assumed only a fifty percent increase in call volume.

In addition to the information in the survey, there is some level of information available publicly from utility filings. For example, ENMAX, the municipal utility serving Calgary, Alberta Canada filed its cost for these services in its 2004 RRT Application No. 1306818. A third party provides these services for a utility with over 300,000 customers. Based on the cost per call of \$8.98 C and two calls per customer (the ENMAX normal experience), this converts to about \$1.15 per month using an exchange rate of 0.769909. For three calls this would be \$ 1.73 per month. Similarly the billing cost of \$2.32 C converts to \$1.78 in US dollars for a total of \$2.93 per customer per month and includes postage and bill inserts. This information is particularly useful in verifying the estimates since prices in response to a full RFP containing complete requirements and the actual interface costs are likely to exceed the phone survey responses.

Given the range of values, from the survey and the confirmation provided by the publicly available information, it is reasonable to conclude that market-based prices for the customer service and billing function are in excess of \$ 2.00 per month for a volume of 100,000 customers for a single entity. The components of this cost are about \$1.00 per customer per month for calls, at least \$0.50 per customer per month for billing and about \$0.53 cents for the remainder of the billing process. Based on experience, these numbers are based on the lowest end of the range of costs and probably would be higher when implemented for a market of this size. Further, to achieve even these estimates requires

long-term commitment to the vendor. If the total customer mix is spread among more than one provider, the cost per customer also increases above this level.

The State of Competition

The scope of the customer care services varies from fully integrated to individual components allowing for provision of one or more components separately. Further, experience demonstrates that retail energy providers are aware of the options available and many use these services for both regulated and non-regulated customer service and billing. For example, all competitive natural gas suppliers in the Georgia market bill their customers under a single bill model based on information provided by Atlanta Gas Light Company through the market or through their own systems based on the economics of the service components. The important point is that the market is competitive.

Based on the economics of utilities providing the customer service and billing services, many utilities (some quite large) have outsourced one or more components of the customer service and billing function. This trend results in active competitors from start-up companies to long-established vendors who provide customer service and billing in total or in part for many more customers than even the largest utility. The evidence suggests that using the customer service and billing template provided in the introduction, there is no basis for regulating the price a utility charges marketers for this service. If the price is too high marketers will go elsewhere if the price is too low, the utility will lose money and exit the provision of the service. In either case, a competitive market produces the correct result.

There is one final issue relative to the utility provision of customer service and billing for marketers and that is the issue of a regulatory subsidy to the marketer. The purpose of competitive markets is to produce economically efficient outcomes. In a competitive market, subsidies represent inefficient outcomes and cannot be sustained. Where

regulation requires a subsidy from the regulated entity to an unregulated service provider, regulation permits competitors who are otherwise inefficient to remain in the market and imposes the results on consumers.