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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the
Ohio Department of Development for
an Order Approving Adjustments to the
Universal Service Fund Riders of
Jurisdictional Ohio Electric Distribution
Utilities.

Case No. 08-658-EL-UNC

TESTIMONY

OF

NICK SUNDAY

ON BEHALF OF
THE OHIO DEPARTMENT OF DEVELOPMENT

October 31, 2008

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TESTIMONY OF NICK SUNDAY
On Behalf of The Ohio Department of Development

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

2 A. My name is Nick Sunday. My business address is Ohio Department of Development
3 ("ODOD"), 77 South High Street, 25th Floor, Columbus, Ohio 43216-1001.

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

5 A. I am employed by ODOD as Office Chief of ODOD's Office of Community Services
6 ("OCS"), an office within ODOD's Community Development Division.

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

8 A. I have been with ODOD since 1981. Prior to my appointment as Office Chief in 2003, I
9 served as OCS's Assistant Office Chief from 1985 to 2003 and as OCS's Chief Financial
10 Officer from 1981 to 1985. I am a graduate of Franklin University with degrees in
11 Business and Finance, and have done graduate work at Capital University in Corporate
12 Finance.

13 **Q. What are your duties and responsibilities as OCS's Office Chief?**

14 A. OCS administers a number of energy assistance programs for low-income utility
15 customers, including the federally-funded Low-Income Home Energy Assistance Program
16 ("LIHEAP"), the federally-funded Community Service Block Grant ("CSBG") program,
17 and the electric Percentage of Income Payment Plan ("PIPP") program, which is funded
18 from the state treasury's Universal Service Fund ("USF"). As Office Chief, I have overall
19 responsibility for administering the funds that support these programs. I also have
20 management responsibility for the day-to-day operations of OCS, which now has some 72
21 employees.

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

2 A. Yes. I presented testimony on behalf of ODOD in the last two annual USF rider rate
3 adjustment proceedings, Case Nos. 06-751-EL-UNC and 07-661-EL-UNC.

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

5 A. The purpose of my testimony is to support the \$2,021,589 allowance for costs associated
6 with ODOD's administration of the PIPP program that has been included in the USF rider
7 revenue requirement proposed by ODOD in its application in this case.

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

10 A. As a part of a settlement agreement ODOD entered into with the Office of the Ohio
11 Consumers' Counsel ("OCC") in the Notice of Intent ("NOI") phase of ODOD's 2005
12 USF rider rate adjustment proceeding (Case No. 05-717-EL-UNC), ODOD agreed that,
13 in future USF rider rate adjustment proceedings, ODOD's proposed allowance for
14 administrative costs would be based on the administrative costs actually incurred during
15 the test period, subject to such adjustment(s), plus or minus, for reasonably anticipated
16 post-test period cost changes as may be necessary to assure, to the extent possible, that
17 the administrative cost component of the USF rider revenue requirement will recover the
18 administrative costs incurred during the collection year. The use of this methodology for
19 determining the allowance for administrative costs was also a condition of the stipulation
20 adopted by the Commission in its September 10, 2008 finding and order in the NOI phase
21 of this proceeding. I have determined the proposed allowance for administrative costs
22 using this standard.

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

3 **A. It is my understanding that the approved test period in this case is calendar year 2008.**
4 **However, ODOD's accounting is based on the state fiscal year, which is the twelve**
5 **months ending June 30, not the calendar year. Thus, I relied on OCS's FY 2008 (the**
6 **twelve months ending June 30, 2008) accounting records to identify the costs actually**
7 **incurred by ODOD in connection with its administration of the PIPP program. Limiting**
8 **the analysis to OCS's accounting records assures that the administrative costs of other**
9 **customer assistance programs funded through the USF, but managed by another office**
10 **within ODOD, are not included in the proposed allowance.**

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

15 **A. This depends on the nature of the costs involved. As shown on Exhibit NS-1 to my**
16 **testimony, OCS breaks its costs down into six categories for accounting and budget**
17 **purposes: (1) Payroll, (2) Temp Staff / Agencies, (3) Consultants / Mail Services, (4)**
18 **Indirect Costs, (5) Maintenance, and (6) Equipment. In some instances, costs are directly**
19 **assigned to PIPP administration, while, in others, costs are allocated to PIPP**
20 **administration based on OCS's estimates of the portion of the total costs in the category**
21 **that relate to this function. The costs identified in the column headed "FY 2008 Actual**
22 **Expenses" are the costs that were coded by OCS as PIPP administrative costs when they**

1 were entered into the state accounting system during FY 2008. I would point out that
2 PIPP administrative costs make up a relatively small percentage of OCS's total costs and
3 budget.

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

5 A. The Payroll category includes the salaries and employee benefits for the members of the
6 OCS staff.

7 **Q. Do OCS staff members report their time in a manner that permits OCS to track the**
8 **employee hours that are chargeable to PIPP administration as opposed to other**
9 **OCS activities?**

10 A. OCS staff members in the Administrative and Support Unit, the Fiscal Unit, Grantee
11 Services (formerly known as the Research and Planning Unit), and the Field Unit record
12 their time by activity in a daily log known as Form OCS 149-96. An example of a
13 completed Form OCS 149-96 is attached to my testimony as Exhibit NS-2. Employees
14 report the hours spent on PIPP-related activities on the line designated "TOTAL HRS –
15 USF." These logs enable OCS to directly assign the payroll dollars associated with PIPP-
16 related activities of the employees in these units to PIPP administration in entering the
17 costs into the state accounting system. However, OCS employees in other units within the
18 office do not report their time by activity, so, in those instances, the OCS fiscal unit must
19 estimate the percentage of their time to be coded to PIPP administration based on an
20 exercise of informed judgment as to the hours the employees devote to PIPP-related
21 matters as opposed to other activities. The \$403,831.53 that was coded to PIPP
22 administration in FY 2008 represents approximately 12.55 percent of the total OCS

1 payroll costs for that period.

2 **Q. The actual USF-related payroll cost of \$403,831.53 for FY 2008 shown on Exhibit**
3 **NS-1 is lower than the \$495,444.65 in actual PIPP-related payroll costs for FY 2007**
4 **that you reported in your testimony in Case No. 07-661-EL-UNC and considerably**
5 **below the \$561,320.70 in actual PIPP-related payroll costs for FY 2007 that you**
6 **reported in your testimony in Case No. 06-751-EL-UNC. What accounts for this**
7 **decrease?**

8 **A. This difference is simply a function of the year-to-year difference in the OCS employee**
9 **time assigned and allocated to USF activities. As I indicated in my testimony in Case No.**
10 **07-661-EL-UNC, the decrease between FY 2006 and FY 2007 was largely attributable to**
11 **the completion of the development and start-up of Phase I of the Ohio Community Energy**
12 **and Assistance Network (“OCEAN”) during FY 2007. This web-based application**
13 **system was designed to facilitate PIPP enrollment and PIPP customer eligibility**
14 **verification and reverification. The streamlining of these processes meant that fewer OCS**
15 **employee hours were required in connection with these activities in FY 2007 than in FY**
16 **2006. The fact that Phase I of OCEAN was in place throughout FY 2008 resulted even**
17 **greater savings in OCS employee PIPP-related time than in FY 2007.**

18 **Q. What costs are included in the Temp Staff / Agency category?**

19 **A. OCS hires temporary employees to perform customer intake and screening functions for**
20 **both PIPP and HEAP assistance and to staff telephone hotlines to provide information**
21 **regarding both these programs. Temporary employees are used to perform these**
22 **functions because the need for these services fluctuates significantly during the year. OCS**

1 also contracts with community action agencies to perform intake and screening. The
2 temporary personnel costs associated the operation of the hotline are allocated to PIPP
3 administration based on the percentage of PIPP-related calls to total calls to the hotline.
4 Intake and screening costs are allocated based on the number of PIPP applications
5 processed versus the total number of applications processed. The \$666,414.41 shown as
6 Temp Staff / Agency costs in Exhibit NS-1 is the amount that was coded as PIPP-related
7 temporary employee and agency costs in FY 2008.

8 **Q. In your testimony in Case No. 07-661-EL-UNC, you reported actual FY 2007**
9 **expenditures in the Temp Staff / Agency category of \$241,462.06. Why are the**
10 **actual FY 2007 expenditures in this category so much higher?**

11 **A.** There has been a significant increase in PIPP-related activity, which includes both
12 applications and reverifications, since FY 2007. In fact, there were over 25,000 more
13 PIPP enrollments during the highest month of enrollment activity in FY 2008 than during
14 the highest month of FY 2007. Thus, despite the fact that all 52 community action
15 agencies now utilize the OCEAN system, the need for temporary workers and agency
16 contract services still increased significantly during periods of heavy PIPP enrollment
17 activity.

18 **Q. What costs are included in the Consultants / Mail Services category?**

19 The Consultants category includes costs incurred by OCS in FY 2008 for outside
20 professional services, including legal services, in connection with its administration of the
21 PIPP program. These costs are directly assigned to PIPP administration when they are
22 entered into the state accounting system. Mail Services costs are the costs associated with

1 mail opening, document imaging, and keying in information in connection with processing
2 applications. OCS contracts these services out. For accounting purposes, these costs are
3 allocated to PIPP administration based on the number of PIPP applications received versus
4 the total number of applications received.

5 **Q. The actual FY 2008 expenditures in this category are significantly lower than the FY**
6 **2007 expenditures you reported in Case No. 07-661-EL-UNC -- \$237,101.75 in FY**
7 **2008 versus \$ 324,624.22 in FY 2007. To what is this difference attributable?**

8 **Q.** The FY 2007 numbers still included some costs associated with the development and
9 start-up of Phase I of OCEAN. The fact that these first-phase OCEAN costs are now
10 totally behind us accounts for much of the difference in actual expenditures in the
11 Consultant / Mail Service category between FY 2008 and FY 2007.

12 **Q. The next line item on Exhibit NS-1 is titled Indirect Costs. What are Indirect**
13 **Costs?**

14 **A.** The Ohio Department of Administrative Services ("DAS") periodically determines a
15 specified percentage of total payroll that OCS must pay to DAS for overhead. In addition
16 to a contribution ODOD's general operating costs, these Indirect Costs also include a
17 contribution to DAS's costs. The specified payroll percentage is currently 42.10 percent.
18 However, applying this percentage to the PIPP-related payroll cost for FY 2008 will not
19 produce the PIPP-related Indirect Costs actually incurred during FY 2008 because these
20 payments are not made to DAS until the quarter following the quarter in which the payroll
21 costs on which they are based. Accordingly, the \$152,164.07 figure shown in Exhibit
22 NS-1 represents the total payments for PIPP-related Indirect Costs actually made to DAS

1 during FY 2008, and is not the product of applying the specified percentage to the OCS
2 PIPP-related payroll costs incurred during that period.

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

4 A. The Maintenance category includes the cost of supplies, communications services, and the
5 like that are necessary for OCS's day-to-day operations. The \$51,164.07 shown on
6 Exhibit NS-1 for this line item is the portion of OCS's total maintenance costs coded to
7 PIPP administration during FY 2008.

8 **Q. In this instance, the actual FY 2008 costs are considerably higher than the actual FY**
9 **2007 costs of \$5,428.20 you reported in your testimony in Case No. 07-661-EL-UNC.**
10 **What accounts for this difference?**

11 A. As I noted in my testimony in that case, FY 2007 maintenance costs were abnormally low
12 compared to our historical experience. The FY 2008 amount includes the maintenance
13 costs for the OCEAN servers, which were all in place during FY 2008. This is an annual
14 cost that will continue to be incurred in future years.

15 **Q. What costs are included in the Equipment category shown on Exhibit NS-1?**

16 A. This category includes the cost of equipment purchased to enable OCS to administer the
17 PIPP program. The \$146,851.10 shown on Exhibit NS-1 for this line item consists
18 primarily of the cost of computers and related equipment and the associated vendor
19 support services.

20 **Q. What was the total cost actually incurred by OCS during FY 2008 in connection**
21 **with its administration of the PIPP program?**

1 A. As shown in Exhibit NS-1 to my testimony, the total actual cost for FY 2008 was
2 \$1,657,335.43.

3 **Q. You indicated that, under the agreed methodology, the proposed allowance for**
4 **administrative costs is to be based on costs actually incurred during the test period,**
5 **subject to such adjustment(s), plus or minus, for reasonably anticipated post-test**
6 **period cost changes as may be necessary to assure, to the extent possible, that the**
7 **administrative cost component of the USF rider revenue requirement will recover**
8 **the administrative costs incurred during the collection year. Have you proposed any**
9 **such adjustments?**

10 A. As I indicated, the costs shown in the FY 2008 Actual Expenses column in Exhibit NS-1
11 are the costs actually incurred by OCS in connection with PIPP administration during FY
12 2008, which is the twelve-month period ending June 30, 2008. However, if the
13 administrative cost components of the USF rider rates established in this case are to
14 recover the costs that will be incurred during the 2009 collection year, reasonably
15 anticipated cost changes must be recognized. To accomplish this, I have relied on the
16 approved OCS budget for PIPP-related costs for the state's 2009 fiscal year.

17 **Q. What amount has OCS budgeted for PIPP administration in its FY 2009 budget?**

18 A. As shown in the column headed FY 2009 Approved Budget in Exhibit NS-1, OCS has
19 budgeted \$2,021,589 for PIPP administration for the twelve-month period ending June 30,
20 2009.

21 **Q. How was the FY 2009 budget for PIPP administration developed?**

22 A. The methodology depends on the category involved. In developing the budget for the

1 Payroll category, OCS began with the FY 2008 actual PIPP-related payroll costs of
2 \$403,831.53, then made two necessary adjustments. In April of 2008, OCS added 15
3 employees, bringing the total number of employees to 72. Although the last few months
4 of FY 2008 reflected the impact of this increase in personnel on PIPP-related payroll
5 costs, the impact of this increase had to be annualized so that the budget would reflect the
6 costs anticipated over the course of FY 2009. The resulting figure was then adjusted
7 upward by 3.5 percent to annualize the effect of the hourly wage increase that became
8 effective July 1, 2008 under the state employee collective bargaining agreement. Because
9 Indirect Costs are tied to payroll, the FY 2009 budget amount for Indirect Costs was also
10 adjusted to reflect the impact of both the increase in OCS staff and the wage increase.
11 Both the Payroll and Indirect Cost numbers were then converted to round numbers, which
12 is standard practice in preparing budgets.

13 **Q. In your testimony in Case No. 06-751-EL-UNC, you indicated that the budgeted**
14 **amounts for the other line items were determined by rounding up the actual FY**
15 **2006 costs in these categories, which you described as a conventional treatment in**
16 **developing budgets. However, Exhibit NS-1 shows approved FY 2009 budget**
17 **amounts for some of these other categories that are significantly different from the**
18 **actual FY 2008 costs. Please explain why you did not simply employ the rounding**
19 **convention in connection with these items in developing the FY 2009 budget for**
20 **USF-related costs.**

21 **A.** Although the actual costs incurred in these categories in the prior fiscal year are the
22 starting point for developing the budget, those costs must be adjusted to recognize

1 anticipated changes if the budget amounts are to reasonably reflect the cost of OCS's
2 PIPP-related operations on a going-forward basis. One of the primary drivers for
3 adjustments to the actual FY 2008 costs is Phase II of the OCEAN project.

4 **Q. What does Phase II of the OCEAN project entail?**

5 A. OCEAN's capabilities have been expanded to include processing applications related to
6 the Electric Partnership Program and the Home Weatherization Assistance Program.

7 **Q. How does the status of Phase II of the OCEAN project affect projected expenditures**
8 **in the Temp Staff / Agency category?**

9 A. Although, over the long term, Phase II of OCEAN will reduce expenditures in this
10 category, additional costs will be incurred in FY 2009 for training agency personnel in the
11 use of these new capabilities. Thus, the actual FY 2008 expenditure in the Temp Staff /
12 Agency category of \$666,414.41 was adjusted to \$600,000 for purposes of the FY 2009
13 to balance the expected cost savings with the estimate of the additional training costs that
14 will be incurred in FY 2009.

15 **Q. Will Phase II of the OCEAN project also affect the level of expenditures in the**
16 **Consultants / Mail Services category?**

17 A. Yes. The level of expenditures for consulting services will increase as the costs of
18 developing and deploying these new OCEAN capabilities are incurred. Accordingly, FY
19 2009 budget estimate of \$476,589 for this category includes an estimate of these
20 additional costs.

21 **Q. As shown in Exhibit NS-1, the FY 2008 budget amount of \$50,000 for the**
22 **Maintenance line item is essentially the same as the \$51,164,07 in costs actually**

1 **incurred in this category in FY 2008. Does this indicate that OCS believes that the**
2 **FY 2008 experience is representative of what can be expected in FY 2009?**

3 A. Yes. In discussing this line item in my testimony in Case No. 07-661-EL-UNC, I noted
4 out that the actual FY 2007 expenditures in this category of \$5,428.20 appeared to be
5 somewhat abnormal, in that the annual PIPP-related maintenance costs had, historically,
6 been considerably higher. As an example, I pointed to FY 2006, where the actual
7 maintenance costs were \$47,628.04. Thus, we have continued to use the same \$50,000
8 estimate for the FY 2009 budget that we used in the FY 2007 and FY 2008 budgets.

9 **Q. The FY 2009 budget amount of \$20,000 for the Equipment category is considerably**
10 **less than the actual FY 2008 expenditures of \$148,858.10. Please explain.**

11 A. As I explained in my testimony in Case No. 07-661-EL-UNC, OCS anticipated ODOT's
12 purchase of an additional server in FY 2008 for use in conjunction with COGNOS, the
13 state administrative agency reporting system, as well as a general upgrade of staff
14 equipment. Thus, the FY 2008 Equipment budget was intended to reflect the portion of
15 those costs that would be allocated to OCS, and then reallocated among OCS's various
16 functions, including PIPP administration. As indicated in Exhibit NS-1, actual FY 2008
17 expenditures in this category totaled \$148,858.10, which proved to be an extraordinarily
18 good fit with the FY 2008 budget estimate of \$150,000. However, these costs are now
19 behind us, and OCS believes that FY 2009 budget amount of \$20,000 will be adequate for
20 the coming fiscal year.

21 **Q. Do you believe the amount budgeted by OCS for PIPP administration for FY 2009**
22 **reasonably reflects the costs OCS will incur during the period the USF rider rates**

1 **approved in this proceeding will be in effect?**

2 A. Yes. The goal in preparing the budget is to project, as accurately as possible, the cost
3 OCS will incur for PIPP administration over the next year. This is the same goal we are
4 trying to achieve in developing the proposed allowance for administrative costs for
5 purposes of this case. The FY 2009 budget amount for PIPP administrative costs
6 represents our best estimate of those costs, and, thus, is the appropriate benchmark to use
7 in establishing the administrative cost component of the USF rider revenue requirement.
8 In addition, I would note that ratepayers will be made whole in the 2009 USF rider rate
9 adjustment case in the event the budget amount exceeds the actual costs incurred by OCS
10 for PIPP administration during the 2008 collection period. As explained in the testimony
11 of ODOD witness Donald Skaggs, the projected year-end USF account balance element of
12 the USF rider revenue requirement will true-up any such difference.

13 **Q. How does the \$2,021,589 allowance for administrative costs proposed in this case**
14 **compare to the allowance approved by the Commission in recent USF rider rate**
15 **proceedings?**

16 A. In last year's USF rider rate adjustment case, Case No. 07-661-EL-UNC, ODOD
17 proposed, and the Commission approved, an allowance for administrative costs of
18 \$1,965,000. This was considerably less than the \$2,738,000 allowance proposed and
19 approved in the previous case, Case No. 06-751-EL-UNC, which was the first case in
20 which the allowance was determined based on the methodology specified by the ODOD-
21 OCC settlement agreement to which I previously referred. As I have explained, much of
22 the difference between that allowance in that case and the much lower allowances

1 proposed in Case No. 07-661-EL-UNC and in this case is attributable to the Phase I
2 OCEAN-related costs incurred in FY 2006 and the savings in FY 2007 and FY 2008
3 resulting from the implementation of the OCEAN system. In the three prior cases (Case
4 Nos. 03-2049-EL-UNC, 04-1616-EL-UNC, and 05-717-EL-UNC), ODOD proposed,
5 and the Commission approved, the same \$1,578,000 annual administrative cost allowance
6 proposed and approved in Case No. 02-2868-EL-UNC. This was down from the
7 allowance for administrative costs of \$1,932,561 accepted by the Commission in
8 establishing the original USF riders in the electric transition plan cases of the state's
9 electric distribution utilities ("EDUs") and in approving the new USF riders proposed in
10 the first USR rider rate adjustment proceeding, Case No. 01-2411-EL-UNC.

11 **Q. If ODOD was able to carry out its responsibilities for administering the PIPP**
12 **program with an annual allowance for administrative costs of \$1,578,000 for a**
13 **number of years, why should the Commission approve the \$2,021,589 allowance that**
14 **you propose in this case?**

15 **A.** OCS has the absolute responsibility to administer the PIPP program regardless of the
16 amount of cash the administrative cost components of the USF rider rates actually
17 generate on an annual basis. OCS cannot encumber funds for purposes of paying the cost
18 of PIPP administration unless it has sufficient cash on hand to support those expenditures.
19 Although the USF rider rates are designed to generate a specific annual pro forma
20 revenue amount to cover PIPP-related administrative costs, this does not mean that
21 ODOD always has cash on hand from USF rider collections to support the payment of
22 PIPP-related costs as they become due. Due to significant fluctuations in the cost of PIPP

1 over the course of a year, the USF cash balances will, at times, go negative, leaving OCS
2 with insufficient revenues to pay the costs of PIPP administration. Thus, OCS's fiscal unit
3 must "make the numbers work" no matter how many dollars are actually available.

4 **Q. Please explain.**

5 **A.** As the monthly USF rider collections come in from the EDUs, ODOD distributes those
6 revenues based on a formula that recognizes the various USF rider revenue requirement
7 components those revenues are intended to support. However, although ODOD's
8 practice is to "pay" the PIPP administrative cost component bucket in full each month, the
9 USF rider rates will not generate the total annual allowance for administrative costs they
10 were designed to produce until the end of the collection year. In the years immediately
11 following the transfer of responsibility for the PIPP program to ODOD, OCS addressed
12 this problem by ascribing little or no cost to the PIPP administration function for
13 accounting purposes and relying primarily on cash balances earmarked for other purposes
14 to support its administration of the PIPP program. This permitted OCS to build up a
15 surplus in the PIPP administrative cost bucket. After two years' experience, ODOD got a
16 better handle on the actual costs associated with administering the PIPP program, and
17 used this surplus to reduce the requested allowance for administrative costs in its 2002
18 USF rider rate adjustment case and to "pay back" some of the cash it had "borrowed"
19 from other sources to operate the PIPP program in the first two years. In the interest of
20 keeping the USF rider rates as low as possible, ODOD continued to propose the same
21 \$1,578,000 allowance for administrative costs approved in the 2002 case in subsequent
22 applications, notwithstanding that the actual costs of PIPP administration were

1 approximately \$1.9 million in FY 2003, \$2.4 million in FY 2004, \$2.1 million in FY 2005,
2 and \$2.653 million in FY 2006. To support the payment of these costs as they became
3 due, the OCS fiscal unit again had to "make the numbers work" by relying on cash
4 balances earmarked for other purposes and by charging certain costs to other programs
5 even though some or all of those costs should have been allocated to PIPP administration.

6 **Q. What additional sources of cash did OCS rely on to permit it to pay PIPP**
7 **administration expenses as they became due in those years?**

8 A. OCS relied primarily on funds earmarked for the LIHEAP program and the interest on the
9 USF generated during periods when the USF had a surplus. More recently, OCS also
10 supported payments for PIPP administration costs with funds from the Temporary
11 Assistance for Needy Families ("TANF") program that were passed through to ODOD
12 from the Department of Jobs and Family Services.

13 **Q. If ODOD was able to "make do" with a \$1,578,000 annual allowance for**
14 **administrative costs in the past, why is it proposing a higher allowance in its**
15 **application in this case?**

16 A. First, as a matter of principle, the USF rider rate should support the cost of administering
17 the PIPP program as contemplated by the legislation that transferred responsibility for the
18 administration of the PIPP program to ODOD. Indeed, the standard for determining the
19 allowance for administrative costs set forth in ODOD-OCC settlement agreement and
20 implicitly recognizes this principle. Second, certain of the funding sources upon which
21 OCS has relied in the past to support the cost of administering the PIPP program are no
22 longer available. For example, as explained in the application, USF interest is no longer

1 available for use by ODOD, nor are TANF funds. Finally, even with the proposed
2 increase in the level of the allowance, the cash flow problem will continue to exist because
3 the total allowance will not be fully collected until the end of the collection period and
4 because the USF will still run into the red from time to time due to the previously
5 mentioned fluctuations in the cost of PIPP. In fact, even if the proposed allowance is
6 approved, I anticipate a problem in 2009 as the result of the need to pay for the EDU
7 audits that will be conducted in the first part of next year. I would also note that ODOD is
8 in the process of revising its electric PIPP rules, and that the proposed allowance does not
9 reflect the impact changes to the current rules may have on the administrative costs
10 associated with the program.

11 **Q. But ODOD has proposed that an element be included in the USF rider revenue**
12 **requirement approved in this case to reflect the cost of the EDU audits, has it not?**

13 A. Yes. But, again, the problem is that these revenues will not be fully collected until the end
14 of the collection year, while OCS will have to have cash available to encumber the funds
15 to pay for these audit costs well in advance of year end. I am not suggesting that there
16 should be some sort of additional adjustment to cure this problem, but it is obvious that
17 including an allowance for PIPP administrative costs that is substantially less than the
18 costs ODOD actually incurs in connection with its administration of the PIPP program will
19 only exacerbate the cash flow problem.

20 **Q. If ODOD anticipates that changes in the electric PIPP rules will add to its PIPP-**
21 **related administrative costs during the 2009 collection period, why has no**
22 **adjustment been proposed in this case to reflect the impact of these increases?**

1 A. Although the objective of the rulemaking effort is to control the cost of the PIPP program,
2 additional costs will be incurred in 2009 to implement the revised rules. These
3 implementation costs will include the costs associated with training agency personnel and
4 any necessary computer reprogramming. However, at this stage of the rulemaking
5 process, the total implementation costs have not yet been quantified. Thus, these costs are
6 not reflected in the proposed allowance, which, in turn, means that the allowance is
7 conservative by any measure.

8 **Q. Is there other evidence that supports the reasonableness of the allowance for**
9 **administrative costs you have recommended?**

10 A. Yes. Although the allowance for PIPP-related administrative costs proposed in this case
11 is higher than the \$1,578,000 allowance approved by the Commission in the four earlier
12 USF rider rate adjustment proceedings to which I referred, one must also recognize that
13 PIPP enrollment has increased dramatically over the period since ODOT took over
14 administration of the PIPP program. In 2001, there were 131,330 PIPP enrollments
15 during the month of the greatest enrollment activity. In FY 2008, there were 255,867
16 enrollments in the month of the highest PIPP-enrollment activity. In view of this increased
17 demand, one would naturally expect the cost of administering the PIPP program to
18 increase, despite efforts, such as the OCEAN project, directed toward minimizing costs to
19 the extent possible. Clearly, these efforts have been very effective, as evidenced by the
20 fact that actual PIPP-related administrative costs in FY 2007 and FY 2008 are well below
21 the actual annual costs incurred during the FY 2003-FY 2006 that I previously identified,
22 despite the significant year-to-year increases in PIPP enrollment.

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

2 **A.** **Yes.**

**Ohio Department of Development
Community Development Division
Office of Community Services**

PIPP-Related Administrative Costs

Cost Category	FY 2008 Actual Expenses	FY 2009 Approved Budget
Payroll	\$ 403,831.53	\$ 610,000.00
Temp Staff / Agencies	666,414.41	600,000.00
Consultants / Mail Services	237,010.75	476,589.00
Indirect Costs	152,056.57	265,000.00
Maintenance	51,164.07	50,000.00
Equipment	146,848.10	20,000.00
Totals	\$ 1,657,335.43	\$ 2,021,589.00

Exhibit NS-2

DCS 148-86 (REV 10/2001)

DAILY LOG BREAKDOWN OF HOURS CHARGED TO PROGRAMS

NAME John Doe

WEEK ENDING: 6/2/2006							Week 1	Total Hours
ACTIVITY	MON 5/29/2006	TUE 5/30/2006	WED 5/31/2006	THU 6/1/2006	FRI 6/2/2006			
1. TOTAL HRS - CSBG	3	7	5	7	3			25
2. TOTAL HRS - HEAP	1	1	1	1	3			7
3. TOTAL HRS - USF	4		2		2			8
4. TOTAL HRS ON LEAVE								0
5. TOTAL (1+2+3+4)	8	8	8	8	8			40
WEEK ENDING: 6/9/2006							Week 2	2 Weeks
ACTIVITY	MON 6/5/2006	TUE 6/6/2006	WED 6/7/2006	THU 6/8/2006	FRI 6/9/2006		Total Hours	Cumulative
1. TOTAL HRS - CSBG	6	6	7	4	7		30	55
2. TOTAL HRS - HEAP	1	1	1	1	1		5	12
3. TOTAL HRS - USF	1	1		3			5	13
4. TOTAL HRS ON LEAVE							0	0
5. TOTAL (1+2+3+4)	8	8	8	8	8		40	80

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing application has been served upon the following parties by first class mail, postage prepaid, this 31st day of October 2008.


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