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June 26, 2009

Greta See
Attorney Examiner
Legal Department
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215-3793

Re: Supplement to Notice of Intent
Ohio Department of Development
Case No. 08-658-EL-UNC

Dear Attorney Examiner See:

In accordance with your entry in the above-referenced docket of June 19, 2009, the Ohio Department of Development ("ODOD") has, this date, submitted its reply to the AEP and Duke Energy Ohio ("Duke") responses to the Supplement filed herein on April 15. As noted in its reply, ODOD has concluded that the AEP and Duke responses adequately address certain of the concerns identified by ODOD in the Supplement, but believes that issues remain with respect to other responses provided by AEP and Duke. Thus, in its reply, ODOD has requested that the subject EDUs provide additional responses to address these open issues.

The agreed procedural schedule adopted by your April 29, 2009 entry in this case did not contemplate a second set of responses by the subject EDUs. However, ODOD believes that the filing of such additional responses may ultimately eliminate the need for a hearing in this matter or, at minimum, may serve to narrow the issues involved. ODOD has consulted with the affected parties, and is authorized to represent that the affected parties have agreed to the filing of additional responses and to a due date for those responses of July 24, 2009. Accordingly, I am requesting that you issue an entry authorizing the filing of additional responses by AEP and Duke and establishing the due date for the responses as July 24, 2009.

Thank you for your attention to this matter.

Sincerely,

Barth E. Royer
Attorney for ODOD

cc: All Parties of Record

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

OHIO DEPARTMENT OF DEVELOPMENT
REPLY TO RESPONSES
OF
THE AEP COMPANIES AND DUKE ENERGY OHIO
TO
SUPPLEMENT TO JUNE 2, 2008 NOTICE OF INTENT

On April 15, 2009, the Ohio Department of Development ("ODOD") filed the Supplement to its June 2, 2008 Notice of Intent ("Supplement") in this docket setting forth its conclusions regarding the results of the application of agreed-upon procedures ("AUP") performed by Schneider Downs to test the accuracy and timeliness of the PIPP-related accounting and reporting practices of the AEP operating companies, Columbus Southern Power Company ("CSP") and Ohio Power Company ("OP") (collectively, "AEP") and Duke Energy Ohio ("Duke"). In the Supplement, ODOD outlined the purpose of each of the procedures, reviewed the results of the application of the procedures reported by Schneider Downs, and stated its conclusions with regard to the performance of AEP and Duke as measured by those procedures. In those instances in which ODOD concluded that the performance was unsatisfactory, ODOD requested that the subject EDU provide a response to the concerns identified by ODOD. AEP and Duke filed their responses on May 5, 2009 and May 4, 2009, respectively, and AEP supplemented its response in its filing of June 11, 2009.

In accordance with the attorney examiner's entry in this docket of June 19, 2009, ODOD hereby submits its reply to the AEP and Duke responses. As discussed below, ODOD believes that the AEP and Duke responses adequately address certain of the concerns identified by ODOD in the Supplement. However, as explained herein, ODOD believes that issues remain with respect to the results of several of the procedures reported by Schneider Downs. In those instances, ODOD will request that the subject companies provide additional responses.[1] ODOD begins with its reply to the responses filed by AEP, followed by its reply to the responses filed by Duke.

AEP RESPONSES

Procedure #4

Procedure #4 was designed to test the accuracy of the USF Monthly Report and Remittance forms ("USF-301 Reports") submitted by the EDUs to ODOD to validate that the correct amounts were remitted. Because the cost of PIPP is determined by deducting PIPP customer payments from the cost of electricity delivered to PIPP customers, accurate reporting is essential to assure that ratepayers are not overcharged for the cost of the PIPP program. Schneider Downs reported that, without exception, all information recorded on the 8 sampled reports (4 for CSP and 4 for OP) agreed with AEP's internal supporting documentation, and successfully traced the amounts remitted through to ODOD's revenue reports. However, Schneider Downs also observed that AEP does not complete certain lines on the USF-301

[1] The agreed procedural schedule adopted in the attorney examiner's entry in this docket of April 29, 2009 did not contemplate a second set of responses by the subject companies. However, ODOD believes that the filing of such additional comments may ultimately eliminate the need for a hearing in this matter or, at minimum, will narrow the issues involved. Accordingly, in conjunction with its reply, ODOD has this date filed a letter in this docket advising the attorney examiner that the affected parties have agreed to the filing of additional responses and requesting that the due date for those responses be July 24, 2009.

Reports (lines A-D, F, and I of Section IV) regarding arrearages on PIPP customers' accounts. Upon inquiry, AEP advised Schneider Downs that AEP was unable to provide arrearage information in a manner consistent with the definition of the term as used in the reporting form, but stated that ODOD had recently offered a new definition and that AEP is in the process of reprogramming its system so that it will be able to complete the reporting form in the future.

In the Supplement, ODOD noted that it has employed the same definition for arrearages since it took over the administration of the electric PIPP program in September 2000. Further, ODOD noted that although AEP has maintained that it is unable to report aggregate customer arrearages on the USF-301 reporting form, ODOD expects AEP to comply with the requirements for reporting customer arrearages for both the quarterly Customer Information Reports (CIR) and the monthly USF-301 Reports. ODOD also noted that AEP reports similar data in the Ohio Statistical and Customer Assistance Report (OSCAR) submitted to the Commission. Thus, ODOD requested that AEP confirm that it will comply with the requirements for reporting customer arrearages and indicate the date when compliance will be achieved.

In response to this ODOD request, AEP indicated that, beginning with the January 2009 USF-301 Report, AEP began to report all financial activity for customers indentified on the PIPP program within its customer information system (CIS). AEP also indicated that, at this time, PAC 2 and inactive PIPP customer activity is still included in the data being reported due to system limitations. AEP noted that, on April 23, 2009, it had informed ODOD of its timeline to implement the changes in the electric PIPP program resulting from ODOD's new PIPP rules, and estimated that the necessary reprogramming and testing would require 20 months of work. AEP asserted that, upon implementation of the new PIPP changes, PIPP data will be reported consistently and for the same time period on the CIR and monthly USF reports, as well as the monthly OSCAR Report.

<u>ODOD Conclusion and Request for Additional Response</u>: Although ODOD understands that software changes may be required to implement certain aspects of the new electric PIPP rules, ODOD continues to question why AEP is currently able to report aggregate arrearage information for the OSCAR Report, but is not able to do so for the USF reports submitted to ODOD. Thus, ODOD requests that AEP provide a response to this question. Moreover, AEP has been aware of the data problem regarding PAC 2 and inactive PIPP customers since 2000, and ODOD does not view this problem as related to any changes necessitated by the new PIPP rules. Accordingly, ODOD believes that the additional 20 months that AEP asserts will be required to correct these problems is excessive, and that this problem can and should be corrected by the 3Q report, which is due October 31, 2009. Accordingly, ODOD requests that AEP respond to this conclusion.

<u>Procedure #5</u>

Procedure #5 was designed to provide a second check on the accuracy of the subject EDU's monthly reporting and remittances, as well as to validate the allowance for undercollection that is built into the EDU's USF rider revenue requirement. The USF-301 Reports and the USF Monthly Reimbursement forms ("USF-302 Reports") were used as source documents. The USF-301 and USF-302 Reports are monthly summary reports to support the amount of dollars being remitted (USF-301) or requested for reimbursement (USF-302). The CIR is submitted quarterly and contains monthly records for each PIPP customer. Among the data fields collected are usage, payments, arrearages, disconnections, and reconnections. The CIR and USF reports have evolved on separate tracks, and ODOD has experienced mixed success among the EDUs in matching the CIR information with the USF-301 and USF-302 Reports. The purpose of this audit procedure was to test the validity of selected CIR data to help solve problems in 'rolling-up' the customer data for validation of the monthly USF transfers.

Schneider Downs reported that it was unable to agree the Electric Customer Payments, Electric Other Payments, and Cumulative Electric Arrearage in the CIRs to the respective USF-301 and USF-302 Reports filed by AEP for CSP and OP. AEP advised Schneider Downs that the discrepancies result from the use of revenue month data for the USF-301 and USF-302 reporting purposes. According to AEP, the revenue month begins with the first billing cycle in the month and extends beyond the last billing cycle through the first workday of the following month whereas the amounts reported in CIRs relate to the actual calendar month.

In the Supplement, ODOD noted that it is unable to confirm the payments reported on the USF-301 Report by cross-checking the customer data. ODOD also noted that there is no reporting of individual customer arrearages by AEP. ODOD emphasized that, under the new PIPP rules, the EDU will be required to submit a monthly invoice to request reimbursement. Thus, customer-level detail will be required each month that supports the amounts remitted and requested for reimbursement. Therefore, ODOD requested that AEP propose procedures for reporting the CIR and USF-301 Report data that will permit customer level data to be aggregated and matched to the monthly remittances and requests for reimbursement. ODOD also requested that AEP indicate when compliance would be achieved.

In response to ODOD's request, AEP indicated that all its reporting of financial activity related to customers on the PIPP program would be reported on a revenue-month basis beginning with its implementation of the new electric PIPP rules. This would include the monthly CIR, the USF and the OSCAR reports. AEP asserts that reporting on a revenue-month basis will enable the reported data to agree to the transactions recorded on AEP's general ledger, which will facilitate the auditing process. AEP also indicated that it will maintain the supporting data in its CIS for the required three-year period. In addition, AEP stated that only one billing per customer will be reported for each month, as opposed to the potential for two billings under a calendar-month based report. Lastly, AEP noted that exceptions to this rule will occur for customer billing adjustments and closed accounts receiving a final bill for a partial month.

ODOD Conclusion and Request for Additional Response: ODOD finds AEP's response to be satisfactory and agrees with AEP's proposal to change all of its reporting to a revenue-month basis. However, ODOD believes that the additional twenty months that AEP asserts will be required to revise the reporting basis is excessive. ODOD requests that AEP implement this change by the 3Q report, which is due October 31, 2009. Accordingly, ODOD requests that AEP respond to this conclusion.

Procedure #8

Procedure #8 was designed to test the timeliness and accuracy of the subject EDU's enrollment and remittance processes at the individual customer account level. Failure to reclassify PIPP customers promptly may result in eligible customers being denied the ability to retain service by paying the ODOD-approved payment plan amount. Failure to remit PIPP customer payments, including agency payments made on behalf of the customer, and prior credits, security deposits, and the like may result in the USF being overcharged for the cost of PIPP.

Schneider Downs reported that of the 149 accounts sampled, it was able to trace 84 of the account reclassifications in AEP's customer information system to the previous business day's ODOD upload. For 24 of the sampled accounts, there was no reclassification activity within the

2006-2007 review period so no analysis was performed. For 21 of the sampled accounts, the reclassifications involved customers that moved. Because these customers notified AEP directly of their move, ODOD was not involved in this process, and, accordingly, these accounts were not included in an ODOD upload file. Thus, step (a) of the procedure could not be applied to these accounts. Of the remaining 20 accounts sampled, 9 accounts generated automatic rejections for various reasons, and were later processed manually after AEP's investigation of the reason for the rejection was completed, 5 were not processed until two business days after receipt of the ODOD upload file, and 4 could not be traced to an ODOD upload file. With respect to the latter, AEP advised Schneider Downs that, occasionally, PIPP account reclassifications are verbally transmitted by ODOD or a community action agency. However, Schneider Downs was unable to verify it that this was the case in connection with these 4 accounts.

With respect to step (b) of the procedure, for 148 of the 149 accounts sampled, Schneider Downs agreed the ODOD approved payment amount to the monthly charges billed to the customer. The remaining account involved a customer on the PIPP Balance Payment Plan ("PBPP"). Thus, that customer was correctly charged the PBPP amount rather than ODOD-determined amount. In performing step (c) of the procedure, Schneider Downs was able to trace 142 of the 149 payments in the sampled accounts to the USF-301 Reports. The remaining 7 customers made no payments during 2006 or 2007. As a result of its review of the customer account histories, Schneider Downs determined that 100 of account reclassifications were reverifications, not enrollments. Because these customers were enrolled prior to 2006, Schneider Downs was not able to perform step (d) of the procedure to determine if any unapplied prior credits, security deposits, or other monies held at time of the customer's entry into program had been remitted to ODOD. The remaining 49 customer reclassifications were enrollments.

Schneider Downs determined that, of these, only 8 had outstanding had security deposits at the time of enrollment and that, in each instance, the deposits were applied to the account prior to processing the PIPP enrollment.

In the Supplement, ODOD found that, as measured by this procedure, AEP's enrollment and remittance processes appeared, for the most part, to be satisfactory. However, ODOD requested that AEP explain the circumstances under which 7 customers made no payments in 2006 or 2007, but remained PIPP customers.

In response to ODOD's request, AEP provided additional account information regarding the 7 accounts in question.

ODOD Conclusion and Request for Additional Response: Although the additional account information provided by AEP partially satisfies ODOD's concern, the question still remains why this information was not available for Schneider Downs' review. Thus, ODOD requests that AEP provide an additional response to address this question.

Procedure #12

Procedure #12 was designed to test, at the individual customer level, the timeliness of the subject EDU in removing ineligible customers from its billing system after receipt of the ODOD upload files containing the PIPP drop information and to test whether the subject EDU has removed the following month's charges in the calculation of its PIPP reimbursement request. Failure to process the PIPP drop information in a timely manner and failure to exclude PIPP charges that are no longer applicable from the reimbursement calculation may lead to an overstatement of the funds due the EDU, which, in turn, would increase the cost of PIPP to be funded through the USF.

Schneider Downs determined that of the 30 sampled accounts, 15 were included in the ODOD drop file retrieved by AEP on May 1, 2007, and were removed from the PIPP program in AEP's customer information system on May 25, 2007. Schneider Downs found that the other 15 accounts were included in the ODOD drop file posted on March 3, 2006, which was never retrieved by AEP. Thus, these accounts were not removed from the PIPP program in AEP's customer information system. (These are the two ODOD drop files described in "AEP Results" for Procedure #1.) In performing step (b) of this procedure, Schneider Downs determined that, for 9 of the 30 selected accounts, the PIPP charges were not included in the reimbursement calculation in the detail of the subsequent USF-302 Report. However, the PIPP charges for the other 21 accounts were included in subsequent USF-302 Report reimbursement request.

In the Supplement, ODOD concluded that the company's procedures for dropping customers from PIPP are not adequate because AEP continued to bill for customers that were no longer eligible for PIPP. Thus, ODOD requested that AEP explain its practices for dropping PIPP customers from program participation when ODOD makes such request through its record transfer process.

In response to ODOD's request, AEP stated that, when a drop record is received through the record transfer process, the PIPP customer is "inactivated" in AEP's CIS system. AEP further stated that, if customers reverify their income through ODOD or a community action agency, the PIPP account is restored to an "active" status, and cited its response to ODOD's concerns regarding Procedure #14 as providing additional information with respect to "inactive" PIPP accounts.

<u>ODOD Conclusion</u>: ODOD finds that AEP's response to its request regarding Procedure #12 is satisfactory.

Procedure #13

This procedure was designed to test, at the individual customer level, whether, contrary to the terms of the PAC program, the EDU sought reimbursement from the USF for the cost of electricity delivered to PAC 2 customers. Reimbursement of these amounts would increase the cost of PIPP to the detriment of the EDU's customers.

Schneider Downs reported that all 30 of the selected accounts included charges for electricity during the selected billing period that were included in the PIPP reimbursement calculation. Although one of the accounts was included because the customer had been reinstated as PIPP customer during that month, the remaining 29 were still on PAC 2 when their charges were included.

In the Supplement, ODOD noted that PAC 2 customers are required to pay their utility bills (not a PIPP Installment) during the second twelve-month period of the arrearage crediting program, and emphasized that the instructions for submitting reimbursement requests clearly state that only PAC 1 customers are eligible for reimbursement from the USF. Therefore, ODOD requested that, beginning with the first month of the USF (September 2000), AEP provide the amount of USF reimbursement it has received for PAC 2 customer accounts and the documentation supporting this calculation.

In response to ODOD's request, AEP stated that it was only able to recover data back to January 2006. However, from the data was available, AEP determined that the following net amounts were billed to the USF for transactions during periods where customers were in the second year of the arrearage crediting program (PAC 2): Ohio Power Company = $241,003.48 and Columbus Southern Power Company = $250,378.85. AEP also stated that the billings to PAC 2 customers exceeded the payments received for the 39-month period. AEP explained that these amounts exclude arrearages built up during the PAC 2 periods that would have been billed to the USF as pre-PIPP in a subsequent period for those customers that later become active again in the PIPP program. AEP provided 13 pages of information in support of its response.

ODOD Conclusion and Request for Additional Response: First, ODOD again notes that the only monthly electric service eligible for reimbursement from the USF is the service where the PIPP customer's monthly payment is based on a percentage of the customer's income. PAC 2 customer payments are not based on a percentage of income; therefore, electric service provided to PAC 2 customers has never been eligible for reimbursement from the USF. However, although AEP was unable to provide data for the entire timeframe requested, ODOD finds that the explanation for the information provided by AEP is reasonable. Nonetheless, in order to validate AEP's response, ODOD requests that AEP provide the following additional information: (1) clarify how PAC 2 customers are classified for USF reporting as "active" or "inactive"; (2) provide, by month, the number of inactive PIPP customers for which bill reimbursement was billed to the USF fund; and (3) provide the number of PAC 2 customers billed for each month. ODOD makes this request because some of the information provided in the supplemental response does not match information previously reported.

Procedure #14

This procedure was designed to test, at the individual customer level, whether the EDU improperly sought reimbursement from the USF for the cost of electricity delivered to inactive PIPP customers. Reimbursement of this amounts would increase the cost of PIPP to the detriment of the EDU's other customers.

Schneider Downs determined that, for 17 of the selected accounts, the charges for electricity during the selected period were not included in the PIPP reimbursement calculation, but, for the remaining 13 accounts, the charges were included in the PIPP reimbursement calculation.

In the Supplement, ODOD noted that the USF-302 Report instructions clearly state that only charges for "Active PIPP" customers and PAC 1 PIPP customers may be billed to the USF and that Schneider Downs' findings indicate that AEP has improperly billed charges to inactive PIPP customers to the USF. Thus, ODOD requested that, beginning with the first month of the USF (September 2000), AEP provide the amount of USF reimbursement it has received for inactive PIPP customer accounts and the documentation supporting this calculation.

In response to ODOD's request, AEP stated that it was only able to recover data back to January 2006. However, from the data that was available, AEP determined that the following net amounts were under-billed to the USF for the inactive PIPP customers: Ohio Power Company = $-312,020.23 and Columbus Southern Power Company = $-270,764.82. AEP notes that the fact that these amounts are negative indicates the USF underpaid AEP with respect to these amounts over this 39-month period. These amounts exclude arrearages built up during the inactive periods that would have been billed to the USF as pre-PIPP in a subsequent period for those customers that later again became active in the PIPP program. AEP provided 13 pages of information in support of its response.

<u>ODOD Conclusion and Request for Additional Response</u>: Although AEP was unable to provide data for the entire timeframe requested, ODOD finds that the explanation for the information provided by AEP is reasonable. However, to validate this response, ODOD requests that AEP provide the following information: for the total USF PIPP billing for the 39 months, <u>by month</u>, the number of PIPP customers by PIPP class (active, inactive, and final) for whom reimbursement was billed to the USF fund. ODOD makes this request because some of the

information provided in the supplemental response does not match information previously submitted to ODOD. ODOD also notes that AEP's responses to Procedures #13 and #14, when read together, may imply that, over time, AEP was actually not made whole as a result of its inclusion of PAC 2 customers in the remittances and reimbursements submitted to ODOD. However, AEP has not made that argument, nor provided the data for the entire timeframe that would be necessary to support such an argument. Accordingly, ODOD is not prepared to reach such a conclusion at this time.

Procedure #15

This procedure was designed to test whether customers reinstated to the PIPP program had actually satisfied their outstanding PIPP obligations before the EDU resumed submitting reimbursement requests to ODOD. Inclusion of charges billed to customers that are not eligible to return to PIPP in reimbursement requests to ODOD increases the cost of PIPP to the detriment of the EDU's other customers.

Schneider Downs determined that, of the 30 selected customer accounts, 4 had no outstanding PIPP balance at the time of reinstatement, and 8 had settled the outstanding balance through a HEAP payment applied in accordance with a Winter Reconnect Order issued by the Commission. The remaining 18 accounts were reinstated without the outstanding PIPP balance being satisfied. With respect to these 18 accounts, AEP advised Schneider Downs that the community action agencies do not enforce the requirement that the customer satisfy outstanding PIPP balances before transmitting the enrollment record to the company. However, if there is a past-due amount on the account in the summer months, the default amount is identified as "PIPP DUE" on the customer's bill, and, if not paid, can subject the customer to collection activity. In the winter months, if the customer relies on the Winter Reconnect Order, the company is required to roll all outstanding obligations into the arrearage.

In the Supplement, ODOD noted that, during the winter months, PIPP customers can have electric service and PIPP enrollment reinstated by meeting the terms of the Commission's Winter Reconnect Order for that particular heating season. However, during the summer months, PIPP customers are required to pay any defaulted PIPP payments plus applicable reconnection fees. Although AEP indicated to Schneider Downs that customers with PIPP DUE amounts can be subjected to collection activity, it was not clear to ODOD that AEP disconnects customers that do not meet these payment obligations. Moreover, based on AEP's response to Procedure #16, which is discussed *infra*, AEP currently does not pursue third-party collection activities against defaulting PIPP customers. Failure to terminate electric service to PIPP customers who are in default increases the cost of PIPP that must be borne by AEP's other customers. Thus ODOD requested that AEP clarify the company's practice for re-enrollment of disconnected PIPP customers, excluding the one reconnection that is permitted during the Winter Reconnect Order time period.

In its response, AEP stated that customers are enrolled on PIPP at the community action agencies, and that the PIPP enrollment records are then electronically sent to the utilities to establish the customers on PIPP. The community action agencies do not enforce payment of past due PIPP amounts from customers before sending the enrollment records to the utility companies. However, AEP indicated that any defaulted PIPP amounts that exist on PIPP accounts in the summer months are owed by the customer on the next electric billing and must be paid or the account is subject to disconnection. When a PIPP account has been disconnected for nonpayment, the customer must pay defaulted PIPP amounts and a reconnection fee to have service restored.

ODOD Conclusion: ODOD finds that AEP's response is satisfactory.

Procedure #16

This procedure was designed to test whether the EDU actively pursues collection with respect to delinquent PIPP customers. Failure to attempt to collect delinquent account balances means that the USF will never be reimbursed for payments made on behalf of PIPP customers, which ultimately increases the burden on the EDU's other customers.

Schneider Downs determined that none of the 30 selected accounts were turned over to an outside collection agency. AEP advised Schneider Downs that, although its policy is to turn final-billed delinquent non-PIPP accounts over to collection agencies for collection, it does not refer final-billed delinquent PIPP accounts to outside collection agencies.

In the Supplement, ODOD concluded that AEP does not pursue collection activities for final-billed PIPP customers as it would for other residential customers, and that this policy means that there is no prospect that the USF will ever be reimbursed for amounts paid on behalf of final-billed delinquent PIPP customers. Thus, ODOD requested that AEP explain the basis for its policy of not pursuing collection activities for final-billed PIPP customers, including any cost justification for this policy.

In its response, AEP asserted that, as discussed with ODOD on previous occasions, AEP will pursue collections on final-billed PIPP accounts only after ODOD determines how AEP will recover the monthly fees charged by third-party collection agencies as set out in the original agreement between ODOD and AEP. The agreement states as follows:

> **Retaining Right to Collect PIPP Program Arrearages.** By executing this Agreement, the Company has elected to retain the right to collect the amount of

> the PIPP Program Arrearages and agrees to remit to the Director all revenues collected from PIPP Program Arrearages, less a reasonable charge for the payment of third party collection costs to be negotiated by the Company and the Director. The company may, in its sole discretion, elect to assign the right to collect the amount of the PIPP Program Arrearages to the Director upon 60 days written notice to the Director. If the Company assigns the right to collect the amount of the PIPP Program Arrearages to the Director, the reporting of monthly consumer level information not already reported to the Director may be necessary. The Company shall have begun collection of the PIPP Program Arrearages on behalf of the Director on September 1, 2000. (Emphasis added.)

ODOD Conclusion and Request for Additional Response: ODOD finds AEP's reliance on this term of the agreement to be misplaced and that AEP's response is otherwise unsatisfactory. First, ODOD notes that the cited contract language does not accurately describe the manner in which third-party collections actually work. It is ODOD's understanding that third-party collection companies are typically compensated by receiving a percentage of the payments they collect. The point here is that AEP has already been reimbursed by the USF for the amounts owed by PIPP customers at the time they are disconnected. What ODOD is requesting is that AEP, like other EDUs, pursue collection activities against disconnected PIPP customers and remit the amount collected by third-party collection companies to the USF, net of the amount retained by the collection companies. Although ODOD recognizes that collection actions against defaulting PIPP customers may not have a high rate of success, the failure to make any attempt at collection means that there is absolutely no prospect that the USF will ever receive any reimbursement for amounts previously paid to AEP for defaulting PIPP customers. ODOD again requests that AEP provide a response explaining why turning over delinquent final-billed PIPP accounts for third-party collection is not a reasonable policy, if, indeed, that continues to be AEP's position.

DUKE RESPONSES

Procedure #1

Procedure #1 was designed to test the timeliness and accuracy of the EDU's processing of PIPP enrollment and PIPP drop information received via ODOD upload files and to assess the reasonableness of the associated business practices. If ODOD files are not uploaded in a timely and accurate manner, income-eligible PIPP customers who have met all the program enrollment requirements will experience a delay in enrollment. Conversely, if customers no longer eligible for the PIPP program remain in the program due to a delay in processing the drop, the EDU reimbursement request will be overstated, which will lead to an increase in the cost of PIPP funded through the USF. Under either scenario, ODOD's administrative costs, which are also funded through the USF, will increase due to the need to respond to customer inquiries and perform related research of customer records.

Schneider Downs reported that 9 of the 10 sampled PIPP enrollment files were uploaded by the next business day, and that the remaining sampled enrollment file was posted by ODOD on January 29, 2007 and was processed by Duke on January 31, 2007. With respect to the 2 sampled drop files, Schneider Downs observed that Duke was unable to provide evidence as to the date the files were retrieved and processed, but did provide evidence of the date each of the accounts contained with the files was processed.

In the Supplement, ODOD concluded that, as measured by this procedure, Duke's processing of PIPP enrollment files is satisfactory. Although the standard practice should be to process PIPP enrollment files on the date following receipt, the one-day delay reported by Schneider Downs with respect to one sampled drop file does not appear to be a cause for concern. However, ODOD noted that Duke's inability to identify the date on which the sampled drop files were processed required explanation. Therefore, ODOD requested that Duke inform the parties and the Commission of its standard procedure for handling PIPP drop information and explain why it cannot identify the date on which drop files were processed.

In response to ODOD's request, Duke stated that it implemented procedures to handle and to respond to PIPP files posted on ODOD's WebFx (Utility Files) in November 2006. Duke also stated that prior to November 2006 the process was carried out manually. Further, Duke stated that the filed dated "4/30/07" consisted of a collection of PIPP remove records, and opined that the file may not have been processed because the accounts in the file were actually on PIPP when Duke received the file. Duke indicated that, going forward, it will process all files containing drop records and report any drop record file that contains zero records.

ODOD Conclusion and Request for Additional Response: ODOD appreciates Duke's agreement that it will, going forward, process all files containing drop records and that it will report any drop record file that contains zero records. Nonetheless, ODOD finds that Duke's response in connection with Procedure #1 does not address ODOD's request. First, Duke failed to describe its PIPP drop procedures, as requested. Second, Duke failed to explain why it could not identify the date that the drop file was processed. ODOD renews its request an explanation of the process (step-by-step procedures) that Duke follows with respect to the PIPP files received from ODOD. If Duke's pre-November 2006 manual process differs from the post-November 2006 automated process, the differences should be identified. ODOD also renews its request for an explanation regarding why Duke could not identify the date that the drop file was processed.

Procedure #2

Procedure #2 was designed to test whether the subject EDU is transmitting confirmation reports in response to ODOD upload files. Beginning with the 2006 heating season, ODOD instituted a new procedure whereby the EDUs were required to transmit return files to ODOD indicating the result of the PIPP enrollment or drop requests contained in the ODOD upload files. Prior to the implementation of this procedure, ODOD had no way of confirming automatically that an enrollment or drop had been effectuated. Thus, when a customer called to inquire why he or she had not been enrolled in or dropped from the PIPP program, ODOD had to research the account manually and contact the EDU to determine the reason for its disposition of the account. The return files now indicate the result for each record, placing the PIPP and Emergency Heap processes on the same footing as the HEAP direct credit process, which has always included the automatic return feature. Return files are now pulled into OCEAN, ODOD's energy assistance software program, which permits ODOD to access the information directly, thereby reducing ODOD's administrative costs.

Schneider Downs confirmed that Duke had returned confirmation reports for 10 of the 12 sampled ODOD upload files. Schneider Downs determined that no confirmation reports were submitted for the remaining two files. However, one of the two remaining files, which had been submitted on a Sunday, contained zero records. Duke advised Schneider Downs that its practice is not to submit a confirmation report for files that contain no records.

In the Supplement, ODOD determined that, as measured by this procedure, Duke's process for returning acceptance/rejection reports for ODOD upload files is not satisfactory because the EDU should immediately contact ODOD if there are apparent errors in an ODOD upload file. Accordingly, ODOD requested that Duke confirm that, in the future, it will immediately advise ODOD if it receives an upload file that contains an apparent error. In addition, to permit ODOD to determine if Duke's failure to return the other confirmation file is a cause for concern, ODOD asked Duke to explain its failure to return a report for this file.

In response to ODOD's request, Duke stated that its current practice is to notify ODOD by email when a file contains an apparent error, and that, in fact, it did notify ODOD that the file in question contained no records. With respect to its failure to return the other file, Duke stated that it is unable to verify that any uploaded file was not returned. Duke also asserted that, when an ODOD upload file contains zero records, Duke is unable to submit a confirmation report.

ODOD Conclusion and Request for Additional Response: ODOD finds that Duke's response is satisfactory, and requests that Duke continue its current practice of notifying ODOD in the event that there are no records associated with an upload file.

Procedure #3

This procedure was designed to test the timeliness and accuracy of the EDU's processing of PIPP enrollment and PIPP drop information received via ODOD upload files at the individual customer account level. Otherwise, the general purpose of this procedure is the same as for Procedure #1.

Schneider Downs determined that, of the 60 accounts tested, 40 of the accounts had been reclassified by Duke by the next business day. Of the remaining 20 accounts, 6 had been closed by they time they were posted in an ODOD upload file, 2 were reverifications that had been phoned in prior to receipt of the ODOD upload file containing the information, 2 were accounts for which Duke had no customer account information history, and 1 was rejected because the customer was receiving generation service from a competitive supplier. However, Duke was unable to provide an explanation as to why delays, ranging from a few days to up to as much as two months, occurred in processing the reclassifications of the other 9 accounts.

In the Supplement, ODOD determined that, as measured by this procedure, Duke's performance in this area is not satisfactory, and requested that, in addition to explaining its procedure for handling PIPP drop information as requested in connection with Procedure #1, Duke explain the measures it has in place to assure that customer records are processed in a timely manner. In addition, ODOD requested that Duke explain the reason for the delay in processing the 9 accounts identified in the Schneider Downs' exceptions, and propose corrective action to be undertaken to prevent delays of this magnitude in the future. ODOD also requested an explanation as to why the two customer accounts could not be located in its customer account information system.

In response to ODOD's request, Duke stated that, since November 2006, when Duke processes an upload file, Duke's system automatically generates "accepts," "rejects," and "pending" reports. Duke stated that the "rejects" reports identify files that cannot be enrolled or reverified due to various reasons, including no match to the information in the upload file, the customer account is finaled, a request to reverify the account, or the account is not PIPP. Duke also indicated that the "pending" reports identify files that cannot be enrolled or reverified due to various reasons, including the account was coded as a non-heat account, account not active, no current bill charges, account has gas or electric supplier, no PIPP first payment, enrolled in another payment plan, or discrepancies between customer name and account number. Next, Duke explained that the "rejects" and "pending" reports are reviewed by its employees. If the "reject" reason is determined to be invalid, the employee manually enters verified ODOD information before sending the confirmation file of "rejects." Duke explained that the same process is utilized to verify valid "pending" files. The timeliness of the manual process for "pending" files depends on the nature of the problem. Duke reported that files are processed based on billing cycles, which can result in different drop dates from those indicated in ODOD's upload file. Further, Duke stated that when a Duke electric account has a supplier other than

Duke's affiliated CRES provider, the PIPP account setup can take up to 45 days. Last, Duke stated that of the 9 accounts in question, 4 are prior to November 2006, 2 were finaled before the ODOD upload, 1 account was manually setup prior to the ODOD upload, 1 account did not receive the first PIPP payment until 6 weeks after the upload, and 1 account had a supplier that had to be removed and the account set up manually.

ODOD Conclusion and Request for Additional Response: ODOD finds that Duke's response adequately addresses the reasons for the delay in processing the 9 identified accounts. Based on Duke's response, it appears that Duke is investigating the customer accounts indicated on its "reject" and "pending" reports before a customer record is rejected. ODOD supports this approach and encourages such investigation before rejecting a PIPP enrollment or reverification. However, Duke's response did not propose any corrective action to make this investigative process more timely. Thus, ODOD renews its request that Duke address this concern. ODOD also finds that Duke's response failed to explain why the two customer accounts could not be located in its customer account information system. Thus, ODOD again requests that Duke explain why this occurred.

Procedure #4

As previously discussed, Procedure #4 was designed to test the accuracy of the monthly USF-301 Reports submitted by the EDUs to ODOD to validate that the correct amounts were remitted. Because the cost of PIPP is determined by deducting PIPP customer payments from the cost of electricity delivered to PIPP customers, accurate reporting is essential to assure that ratepayers are not overcharged for the cost of the PIPP program.

Schneider Downs determined that the information recorded on 3 of the 4 sampled USF-301 Reports agreed with Duke's supporting internal documentation, but found inconsistencies between certain entries on Duke's November 2006 USF-301 Report and the underlying internal documentation. Schneider Downs successfully traced the EFT amounts remitted by Duke through to ODOD's revenue reports in each instance.

In the Supplement, ODOD noted that it had confirmed that the discrepancies identified by Schneider Downs between certain of the entries in Duke's November 2006 USF-301 Report and the supporting internal documentation had no impact on the accuracy of the EFT amount remitted to ODOD. As shown in Appendix A to the Schneider Downs' report, the relevant totals are consistent. However, ODOD noted that an EDU should not submit monthly reports which conflict with its company ledgers. Even though the amount remitted was correct, the amounts credited to the different PIPP customer types were incorrect. Therefore, ODOD requested that Duke confirm that it will submit a corrected November 2006 USF-301 Report to ODOD, and submit such report to ODOD within 10 days of filing its responses to the Supplement.

In response to ODOD's request, Duke submitted a corrected November 2006 USF-301 Report.

ODOD Conclusion: ODOD finds that Duke's response is satisfactory.

Procedure #5

As previously discussed, Procedure #5 was designed to provide a second check on the accuracy of the subject EDU's monthly reporting and remittances, as well as to validate the allowance for undercollection that is built into the EDU's USF Rider Revenue Requirement. The USF-301 Reports and the USF-302 Reports were used as source documents. The USF-301 and USF-302 Reports are monthly summary reports to support the amount of dollars being remitted (USF-301) or requested for reimbursement (USF-302). The CIR is submitted quarterly and contains monthly records for each PIPP customer. Among the data fields collected are usage, payments, arrearages, disconnections, and reconnections. The CIR and USF reports have evolved on separate tracks, and ODOD has experienced mixed success among the EDUs in matching the CIR information with the USF-301 and USF-302 Reports. The purpose of this audit procedure was to test the validity of selected CIR data to help solve problems in 'rolling-up' the customer data for validation of the monthly USF transfers.

Schneider Downs was unable to agree the Electric Customer Payments, Electric Other Payments, and Cumulative Electric Arrearage in the CIRs to the respective USF-301 and USF-302 Reports filed by Duke. Duke advised Schneider Downs of three potential reasons for these discrepancies. First, Duke opined that the customer sets may not be the same because the USF-301 and USF-302 Reports cover all payment activity regardless how long the customer may have been PIPP inactive, while the CIR includes only active PIPP customers and those that have been active PIPP customers within the last year. Second, Duke indicated that the USF-301 and USF-302 Report amounts are reported to the penny, whereas the CIR amounts are rounded to whole dollars. Finally, Duke noted that the payment fields in the CIR reports will not accept negative numbers, so that entries such as returned checks appear as a positive number. Duke indicated to Schneider Downs that its IT personnel are presently working with ODOD to resolve this issue.

In the Supplement, ODOD noted that the CIR data submitted to ODOD by Duke presents so many problems that it is largely unusable. Aggregate customer payments or arrearages cannot be reconciled to the amounts contained in the remittance report. ODOD also noted that it was not able to conduct 2008 customer reverification procedures as a result of the poor data. Further, ODOD determined that Duke's assertion, to Schneider Downs, that the CIR only requires the reporting of "Active PIPP" customers, and those that have been active in the last year, is incorrect. Duke, in fact, reports records for both active and inactive PIPP customers, in compliance with ODOD's requirements. However, numerous coding errors in this data field contributed to difficulties experienced by Schneider Downs in performing this procedure. The new PIPP rules require "monthly customer information" that provides the customer-level detail to support the amounts being remitted and billed. Based on past performance, ODOD is concerned with Duke's ability to comply with the new procedures.

In view of these issues, ODOD requested that Duke provide a plan to improve its CIR reporting and explain the procedures that will be implemented to reconcile this report to the monthly remittance and reimbursement reports. ODOD also requested that Duke indicate when compliance will be achieved.

In response to ODOD's request, Duke stated that as part of the new PIPP rules concerning monthly customer information reports, Duke will be able to analyze and submit more accurate quarterly CIR reports to ODOD. Duke asserted that it is not possible at this time to state with certainty when Duke will have new systems in place.

ODOD Conclusion and Request for Additional Response: ODOD finds Duke's response to be unsatisfactory. Regardless of the new PIPP rules, Duke has always had the obligation to submit accurate reports. Thus, ODOD believes that, at a minimum, (1) the CIR should include a properly coded record as "active" or "inactive" PIPP, resulting in information that should match the number of active and inactive PIPP customers on the USF-301 Report; (2) for the USF-301 Report, the payments should match the customer level data on the CIR for active and inactive PIPP; (3) for the USF-301 Report, the customer level arrearage data on the CIR should roll-up to match the aggregate arrearage data on the USF-301 Report. ODOD expects to receive accurate reports starting with Duke's 3Q report, which is due October 31, 2009. Thus, ODOD requests that Duke respond to these conclusions.

Procedure #8

As discussed previously, Procedure #8 was designed to test the timeliness and accuracy of the subject EDU's enrollment and remittance processes at the individual customer account level. Failure to reclassify PIPP customers promptly may result in eligible customers being denied the ability to retain service by paying the ODOD-approved payment plan amount. Failure to remit PIPP customer payments, including agency payments made on behalf of the customer, and prior credits, security deposits, and the like may result in the USF being overcharged for the cost of PIPP.

Schneider Downs prefaced its description of the results of this procedure by noting that Duke provides both gas and electric service. Although Duke was, in most instances, able to demonstrate the amount of sampled customer payments applied to charges for gas service and the amount applied to charges for electric service, Schneider Downs, in performing certain steps of this procedure, was not able to verify whether this allocation complied with the payment priority rules because the necessary data was not available. In performing step (a) of the procedure, Schneider Downs determined that, of the 149 active accounts sampled, 76 reclassifications were uploaded the same day or the next business day in accordance with expected practice, while 20 accounts were processed later than one business day after receipt of the ODOD upload file. Schneider Downs found that 28 of the account reclassifications were initiated by community action agencies and, thus, were not part of an ODOD upload file. One other account was also processed manually, but Schneider Downs was unable to determine how the reclassification was initiated. Of the remaining 24 sampled accounts, 14 involved customer moves, and, thus, for reasons previously explained, they were not included in an ODOD upload file. Schneider Downs noted that, of these, 3 were not set up as PIPP accounts at the new address, but that it was unable to determine why they were removed from the program at that time. Schneider Downs determined that 4 of the sampled accounts had no reclassifications during the 2006-2007 review period. Schneider Downs found 5 account reclassifications that could not be traced to an ODOD upload file, and, thus, could not determine how these reclassifications were initiated. Finally, Schneider Downs found that 1 sampled account had been identified in the CIR as active PIPP in 2007, but which was not actually enrolled until 2008, which was outside the review period.

Schneider Downs agreed the ODOD-approved payment amount to the monthly electric charges billed for 142 of the 149 sampled accounts in performing step. Schneider Downs could not perform this step (b) of this procedure for the 3 customers who were not set up as PIPP accounts at their new address or for the customer that was identified in the CIR as active PIPP in 2007, but who was not actually enrolled until 2008. As previously discussed, the sampled PBPP customer was correctly charged the PBPP amount as opposed to the ODOD-approved PIPP payment amount. One of the remaining 2 accounts involved a customer that enrolled in PIPP in December 2007, but whose first PIPP payment was not made until 2008, which was outside the review period. With respect to the other account, Schneider Downs determined that the customer had been billed the PIPP charge twice for the same month, but was unable to determine why this occurred.

In performing step (c) of the procedure, Schneider Downs was able to trace 70 of the 149 selected payments in the sampled accounts to the respective USF-301 Report detail without exception. Schneider Downs found that 17 of the accounts did not reflect any payments during the 2006-2007 review period. Thus, this step of the procedure could not be performed for those accounts, nor could it be performed for the 3 accounts where the customers moved and were not set up on PIPP at their new addresses or for the customer that was identified in the CIR as active PIPP in 2007, but who was not actually enrolled until 2008. For 53 accounts, the selected payments were all applied to charges for gas service, and, therefore, there were no payments to trace to the USF-301 Reports. Schneider Downs traced 1 selected customer payment of $120.86 to the USF-301 Report. However, when that check was returned by the bank for insufficient funds, the amount Duke withheld from following month's USF-301 Report remittance was $125.02. Schneider Downs was unable to determine the reason why the amounts did not match. Schneider Downs found that one of the selected payments that did not trace to the USF-301 Report. Although Duke demonstrated that $40.05 of this payment was allocated to electric charges, the USF-301 Report detail showed a payment of $166.70. Schneider Downs was unable to determine the reason for this discrepancy. Schneider Downs found 1 selected payment that was not included in the USF-301 Report. The customer in question had a credit balance at the time of payment, so Duke did not include the amount in that month's report. Finally, there were 2 selected payments for which Duke could not provide an allocation between gas and electric. Thus, Schneider Downs was unable to complete step (c) of the procedure for these payments.

In performing step (d) of this procedure, Schneider Downs found that 118 of the 149 sampled accounts were either reverifications or had no unapplied prior credits, security deposits, or other unapplied funds at the time the customer initially enrolled in PIPP. However, Schneider Downs determined that the 31 remaining accounts had security deposits at the time of enrollment that were not remitted to ODOD or applied to the customer's outstanding balance.

In the Supplement, ODOD noted that for every enrollment that could be tested for unapplied credits (security deposits), the credits were not remitted to the USF. ODOD believes that this is evidence that a substantial problem may exist. When customers enroll in PIPP, any deposits held on those accounts are to be transferred as credits to offset the EDU's cost of PIPP. When those deposits are retained by the EDU, it creates an additional burden for customers that must pay the EDU's USF rider rate. This is an issue that ODOD has addressed in the past with certain other EDUs.

As a result of these concerns, ODOD requested that Duke provide a detailed explanation of its procedure for allocating customer payments between the gas and electric PIPP programs. In addition, ODOD requested that Duke identify, beginning with the first month of the USF (September 2000), the total amount of unassigned credits (security deposits) that were not remitted to the USF upon a customer's enrollment in the program, and to provide documentation supporting this total. Finally, ODOD requested that Duke explain the circumstances under which 17 PIPP customers failed to make any payments in 2006 and 2007, but remained PIPP customers.

In response to ODOD's request, Duke first stated that in January 2009, Duke applied all security deposits to the accounts that had security deposit prior to the customers' enrollment on PIPP. Duke asserted that it will run a yearly query to identify any future accounts that have a security deposit on the account and to apply the deposit to that account. Next, with respect to the circumstances under which 17 PIPP customers failed to make any payments in 2006 and 2007, but remained PIPP customers, Duke stated that the Winter Rule, medical certificates, moratoriums (either official or unofficial), degree weather days (cold and heat) and PIPP accounts not exceeding the $100.00 disconnect threshold, all present circumstances where PIPP customers failed to make payments but have remained on PIPP.

ODOD Conclusion and Request for Additional Response: ODOD finds that Duke's response is seriously lacking. First, Duke failed to respond to ODOD's request to provide a detailed explanation of its procedure for allocating customer payments between the gas and electric PIPP programs, notwithstanding that ODOD clearly stated its concern regarding the allocation of customer payments between the gas and electric PIPP programs. ODOD considers this a serious area of risk because the Schneider Downs' findings strongly suggest that a systemic problem may exist. ODOD notes that Schneider Downs previously provided Duke the audit detail for these 53 customer payments, and requests that, for each payment, Duke provide the account number and an explanation as to why there was no credit to the electric bill from the customer payment.

With respect to the issue regarding unapplied security deposits or unapplied other credits, ODOD notes that Duke failed to provide the information for the timeframe requested. Further, Duke did not supply any data to support its assertion that, in January 2009, it applied all security deposits to the accounts that had a security deposit prior to the customers' enrollment on PIPP. Indeed, ODOD's review of Duke's January 2009 report did not reveal any such adjustment. As noted above, ODOD's concern regarding the application of security deposits is heightened by its experience with respect to this issue in connection with certain other EDUs. Therefore, ODOD requests that, in addition to the information originally requested, Duke provide: (1) the amount of the January 2009 adjustment, (2) where in the reimbursement request the adjustment is reflected, and (3) the supporting account data for the total adjustment.

Finally, ODOD finds that Duke's possible explanations for the circumstances under which 17 PIPP customers failed to make any PIPP payments in 2006 and 2007 and remained PIPP customers is not satisfactory. ODOD notes that Schneider Downs previously provided to the company the audit detail for these 17 customer accounts. Therefore, ODOD requests that

Duke provide the account number and a specific explanation as to why each customer remained on PIPP for 2006 and 2007.

Procedure #9

Procedure #9 was designed to test the timeliness of the subject EDU in processing drops contained in ODOD upload files at the individual customer level and to identify and to track payments by customers enrolled in a PAC program upon their removal from PIPP to test whether the payments were in the proper amount and if the payments were properly remitted to ODOD in accordance with terms of the EDU's PAC program. Failure to remit payments from prior PIPP customers enrolled in the PAC programs would overstate the cost of PIPP.

After selecting the 30 account sample, Schneider Downs discovered that 3 of the selected PAC 3 accounts were not actually on PAC 3 until 2008. Thus, Schneider Downs treated these accounts as part of the PAC 1 group, resulting in a sample consisting of 18 PAC 1 accounts and 12 PAC 3 accounts. In performing step (a) of this procedure, Schneider Downs verified that, 28 of the 30 of the selected customers were reclassified as PAC customers in Duke's customer information system, but noted that Duke was unable to provide customer account information for the other 2 selected accounts. Schneider Downs was unable to perform step (b) of the procedure for the 12 selected PAC 3 customers because the payments in question were made prior to the January 1, 2006 start date of the review period. With respect to the 18 selected PAC 1 accounts, Schneider Downs found that the payment amount for all 18 accounts remained at the ODOD-approved level, but indicated that it was able to trace only 9 of the 18 payments to the applicable USF-301 Report. Of the remaining 9 selected payments, 3 could not be traced because Duke's system only allows it to store this detail for twenty-four (24) months and the payments in question were made during the January-June 2006 period. Schneider Downs was unable to trace

5 of the selected payments because the payments were applied to charges for gas service. Duke explained this by advising Schneider Downs that customer payments are generally applied to the oldest charges first. The remaining selected payment could not be traced to the USF-301 Report detail because Duke did not provide the detail for the month of September 2007 when the payment occurred.

As explained above, Schneider Downs could not perform steps (c) and (d) of this procedure for the selected PAC 1 accounts. As a result of performing step (c) for the PAC 3 accounts, Schneider Downs determined that, for 9 of the 12 selected accounts, the applicable arrearage payment amounts were properly reestablished in the account. One of the remaining 3 selected customers did not go onto PAC 3 until December 2007, so the arrearage payment amount was not reestablished during the review period. Duke was unable to provide account information for the other two accounts. In performing step (d) for the PAC 3 accounts, Schneider Downs was able to trace an arrearage payment to the USF-301 Report for 4 of the 12 accounts. Two of the remaining selected customers made no arrearage payments during the review period, and the other six could not be traced for the same reasons the remittances of the ODOD-approved PIPP amount could not be traced to the USF-301 Report detail.

In the Supplement, ODOD noted that the difficulties encountered by Schneider Downs in tracing PAC 1 payments to the USF-301 Report detail indicate that Duke's performance in this area is unsatisfactory in several respects. First, under its contract with ODOD and the Commission's record-retention rule, records are to be maintained by the EDU for thirty-six (36) months. Thus, Duke's inability to produce the detail for payments made during the January-June 2006 period violates these standards. Second, notwithstanding the explanation offered by Duke, the fact that five of the selected payments were credited entirely to gas PIPP suggests that there may be a systemic problem that has increased the cost of PIPP borne by Duke's electric customers. Finally, the fact that an entire month of account history (September 2007) was unavailable for review by Schneider Downs is unacceptable.

Thus, ODOD requested that Duke determine, beginning with September 2000, the amount of PAC 1 customer payments that have not been properly included with the PIPP remittance and provide documentation supporting this determination. ODOD also requested that Duke explain its current record retention policy and indicate the expected date of compliance with the 36-month requirement contained in it contract with ODOD and the Commission's rules. Finally, ODOD requested that Duke explain why it could not locate any customer account information for the month of September 2007 and why there was no customer account information available for two customers who enrolled in the PAC 1 program.

In response to ODOD's request, Duke stated that it is presently consulting with its technical departments to determine the cost of compliance with a thirty-six month record retention policy. Next, Duke stated that, as noted in the Schneider Downs report, there is only 1 account in question for customers who enrolled in the PAC 1 program according to the report findings detail. Duke cited to a specific account and stated that the account reflects a payment on September 4, 2007 in the amount of $205.00.

<u>ODOD Conclusion and Request for Additional Response</u>: First, with respect to record retention, ODOD finds that Duke's response is insufficient, as Duke did not explain its current record retention policy, or commit to a date for compliance. As noted earlier, Duke's current record retention practice does not comply with the record retention term of its agreement with ODOD or with the Commission's record retention rules. Thus, ODOD does not regard the cost

of compliance as a relevant consideration, and renews its request that Duke provide the requested information.

Next, Duke offered nothing in response to ODOD's request that it provide, beginning with September 2000, the amount of PAC 1 customer payments that have not been properly included with the PIPP remittance and to provide documentation supporting this determination. ODOD notes that the Schneider Downs report indicated that, for 50% of the sample, Duke failed to remit PAC 1 customer payments but still billed the USF for the PAC 1 service. Therefore, ODOD requests that Duke provide, at a minimum, the requested information for the last 2 years.

Finally, ODOD finds that Duke failed to address ODOD's requests to explain why it could not locate any information for the month of September 2007 and why there was no customer account information available for 2 customers who enrolled in the PAC 1 program. Further, ODOD finds that Duke's response misstated the Schneider Downs findings by stating that there was only 1 account in question, when in fact there were 18, and that Schneider Downs was able to trace only 9 of the 18 payments to the applicable USF-301 Report. As noted earlier, Schneider Downs previously provided to the company the audit detail for these 18 customer accounts. Duke's response provided payment information with respect to one PAC 1 account. Therefore, ODOD requests that Duke provide the account number and an explanation regarding the remaining 17 payments.

Procedure #11

Procedure #11 was designed to test the accuracy of the reimbursement requests at the individual customer level, including the accuracy of any stated pre-PIPP arrearages included in the requests.

As Schneider Downs noted in reporting the results of applying Procedure #8, Duke supplies both gas and electric service. For the monthly charges tested through this procedure, as well as those tested in Procedures #12, #13, and #14, Duke demonstrated the amounts charged, respectively, to gas and electric service. However, Schneider Downs was not able to verify the allocation of these charges between gas and electric for 2006 and 2007 because the necessary data was not available. In performing step (a) of this procedure, Schneider Downs traced the selected charges through from the supporting documentation to the applicable USF-301 Report detail for 142 of the 149 sampled accounts. Schneider Downs could not perform this step of the procedure for the other 7 accounts for the following reasons. For 1 selected account, the customer was on PIPP and incurred electric charges, but there were no charges for this customer included for reimbursement in the USF-302 Report for the month in question. For 4 accounts, Schneider Downs determined that the selected customer accounts were not actually on PIPP at the account number selected. For 1 account, Duke was unable to provide the customer account history. The remaining account was the customer that enrolled in December 2007 described in the discussion of the "Duke Results" for Procedure #9. Thus, the charges to that customer submitted for reimbursement would not have appeared on a USF-301 Report reimbursement request until 2008, which was after the end of the 2006-2007 review period.

In applying step (b) of this procedure, Schneider Downs found that, of the 149 accounts tested, 76 were reverifications, not enrollments. Because these customers were enrolled prior to the 2006-2007 review period, Schneider Downs was unable to determine if any accumulated past due balances existed at time of enrollment. With respect to the 73 reclassifications that were PIPP enrollments, Schneider Downs determined that 2 of the accounts had no past-dues at the time of enrollment and that no past-dues were submitted for these accounts in the USF-302

Report reimbursement requests for the applicable months. Schneider Downs agreed the accumulated past-dues for the 55 of the remaining accounts to the applicable USF-302 Reports. For 13 of the remaining selected accounts, Schneider Downs was unable to trace the accumulated past-dues to the applicable USF-302 Report, and noted that the total gas and electric accumulated past-dues indicated in the Duke documentation did not agree with the total gas and electric accumulated past-dues displayed on the on the customers' bills after they enrolled in PIPP. The last 3 accounts involved customers that were enrolled in PIPP in December 2006. Schneider Downs indicated that Duke could not provide a breakdown of the accumulated gas and electric past-dues, so this step could not performed for these accounts.

In the Supplement, ODOD determined that, as measured by this procedure, Duke's performance with respect to the accuracy of its requests for reimbursements is not satisfactory. As explained in the discussion of Procedure 8#, ODOD noted its concern that customer billing data is not being properly retained and allocated between gas and electric utility services. Thus, ODOD requested that Duke explain why the 13 customer accounts for which the accumulated past-due amounts (Pre-PIPP) could not be traced to the applicable USF-302 Reports. ODOD also requested that Duke explain why Duke's documentation did not agree with the past-dues on the customer bills.

In response to ODOD's request, Duke stated that the amount transferred to PIPP does not always agree to the amount listed on the customers' bill due to "unprepped charges" (charges incurred but not yet prepared on the bill.) Duke asserted that it will endeavor to create a means by which to reconcile this data and provide this information while also preparing to meet other new requirements set forth in ODOD's newest rules.

ODOD Conclusion and Request for Additional Response: ODOD finds that Duke's response fails to address ODOD's request. As noted previously, Schneider Downs provided Duke the audit detail for the customer accounts. Duke did not provide specific information regarding the 13 accounts in question. Therefore, ODOD requests that Duke provide the account number and an explanation regarding why Duke's documentation did not agree with that customer's bill. In addition, ODOD requests that Duke provide a more detailed description of "unprepped charges" and explain how those charges would impact the accumulated past dues (pre-PIPP balance) addressed by this procedure.

Procedure #13

As discussed earlier, this procedure was designed to test, at the individual customer level, whether, contrary to the terms of the PAC program, the EDU sought reimbursement from the USF for the cost of electricity delivered to PAC 2 customers. Reimbursement of these amounts would increase the cost of PIPP to the detriment of the EDU's customers.

Schneider Downs determined that of the 30 selected PAC 2 accounts, 16 had charges for electricity during the selected billing period that were included in the PIPP reimbursement calculation and 2 did not. Schneider Downs found that, of the remaining 12 accounts, 10 of the customers were not actually on PAC 2 until 2008, which was outside 2006-2007 review period, and 2 were not on PAC 2 at the selected account numbers because they had moved and were not set up on PAC 2 at their new address.

In the Supplement, ODOD noted that PAC 2 customers are required to pay their utility bills (not a PIPP Installment) during the second twelve-month period of the arrearage crediting program. ODOD emphasized that the instructions for submitting reimbursement requests clearly state that only PAC 1 customers are eligible for reimbursement from the USF. Therefore, ODOD requested that, beginning with the first month of the USF (September 2000), Duke provide the amount of USF reimbursement it has received for PAC 2 customer accounts and the documentation supporting this calculation.

In response to ODOD's request, Duke stated that it properly included the electric portion of all PAC 1 customer payments in the remittance to ODOD, under the line item "Payments by Customers Enrolled in Arrears Crediting." Duke cited attachment 2 as its supporting documentation.

ODOD Conclusion and Request for Additional Response: ODOD finds that Duke's response discussed PAC 1 customers, whereas ODOD's request concerned PAC 2 customers. Therefore, ODOD requests that Duke provide the information originally requested by ODOD.

Procedure #14

As discussed above, this procedure was designed to test, at the individual customer level, whether the EDU improperly sought reimbursement from the USF for the cost of electricity delivered to inactive PIPP customers. Reimbursement of this amounts would increase the cost of PIPP to the detriment of the EDU's other customers. Schneider Downs determined that, for 24 of the selected accounts, the charges for electricity during the selected period were not included in the PIPP reimbursement calculation, but, for the remaining 6 accounts, the charges were included in the PIPP reimbursement calculation.

In the Supplement, ODOD noted that the USF-302 Report instructions clearly state that only charges for "Active PIPP" customers or PAC 1 PIPP customers may be billed to the USF. Schneider Downs' findings indicate that Duke has improperly billed charges to inactive PIPP customers to the USF.

Thus, ODOD requested that, beginning with the first month of the USF (September 2000), Duke provide the amount of USF reimbursement it has received for inactive PIPP customer accounts and the documentation supporting this calculation.

In response to ODOD's request, Duke noted that Procedure #14 entailed randomly selecting a sample of 30 customer accounts identified as inactive in the quarterly CIR, 15 each from 2006 and 2007, selecting a billing period for each customer, and verifying the amount charged to the customer for electric service was not included in the PIPP reimbursement calculation. Duke noted that the audit results indicated that for 24 of the selected accounts the charges for electricity during the selected period were not included in the PIPP reimbursement calculation. For the remaining 6 accounts, Duke stated that it appears that the timing of the sample may be the problem. Duke noted that 1 of the accounts has since been archived and is no longer available in its CMS system. Next, Duke noted that 4 other accounts are "final" as a result of final billing. Duke further noted that because the 4 accounts are final, the final charges would still be deferred to PIPP and included in the remittance and reimbursement. Duke asserted that, in its billing process, the order of events is to first create charges, then to take care of any payment plan processing, such as a "PIPP remove." For the last account, Duke stated that this account did not appear to have new charges in the remittance and reimbursement for the month that it became inactive, but noted that the exceptions workbook does not indicate what month was being tested.

<u>ODOD Conclusion and Request for Additional Response</u>: ODOD finds that Duke's response is unsatisfactory. For the 6 accounts in question, Duke responded that 1 account was archived and 4 were final. Although Duke asserted that the timing of the sample may be the source of the problem, it is not clear to ODOD why this would create a problem. To clarify its

response, ODOD requests that Duke respond to the following questions. What is the interval between when an account is finaled and when it is archived? What was the specific interval for the 1 account that was archived? Does archival mean that Duke no longer has the ability to access such information?

Next, it is ODOD's understanding that EDU's typically mark an account and report it as "final" PIPP in the month that the final bill is issued, and that the account would then be marked as "inactive" PIPP for the following reporting month if the customer still has an arrearage. With respect to the 4 final accounts, ODOD is seeking to understand when Duke marks an account as final. In other words, is it Duke's practice to mark an account as "final" and "inactive" in the same reporting month? ODOD requests that Duke respond to this question.

<u>**Procedure #15**</u>

As previously discussed, this procedure was designed to test whether customers reinstated to the PIPP program had actually satisfied their outstanding PIPP obligations before the EDU resumed submitting reimbursement requests to ODOD. Inclusion of charges to customers that are not eligible to return to PIPP in reimbursement requests to ODOD increases the cost of PIPP to the detriment of the EDU's other customers.

Schneider Downs determined that, of the 30 selected customer accounts, 12 had been reinstated without the customer satisfying the outstanding PIPP balance, and that 11 of these were zero-income customers. Schneider Downs found 1 of the accounts had no outstanding PIPP balance at the time of reinstatement, and that 8 had satisfied the outstanding PIPP balance prior to reinstatement, 7 of which did so through a HEAP payment during the winter reconnection period. Schneider Downs determined that the remaining 9 accounts were never actually removed from the PIPP program. Although these accounts were identified as inactive in the CIR, they were not actually inactive for various reasons.

In the Supplement, ODOD noted that during the winter months, PIPP customers can have electric service and PIPP enrollment reinstated by meeting the terms of the Winter Reconnect Order issued by the Commission for that particular winter heating season. However, during the summer months, PIPP customers are required to pay any defaulted PIPP payments plus applicable reconnection fees. Thus, ODOD requested that Duke clarify the company's practice for re-enrollment of disconnected PIPP customers, excluding the one reconnection that is permitted during the Winter Reconnect Order time period.

In response to ODOD's request, Duke stated that, if a PIPP customer has been turned off for non-payment, the customer must pay the past due PIPP installment amount and, if applicable, be reverified to have service restored. If the PIPP customer does not need to reverify, Duke stated that the customer need only pay the past due PIPP installment amounts and that Duke will then reinstate the customer on the PIPP program. With respect to a customer's move to a new location, Duke stated that if the customer does not need to be reverified, Duke will automatically reinstate the customer as a PIPP customer once the account has been billed. If the PIPP customer needs to be reverified, however, the customer must go to a local community action agency before the customer can be reinstated on PIPP. Once the customer is reinstated, Duke asserted that it will recalculate the PIP balance and adjust the account to so reflect.

<u>ODOD Conclusion</u>: ODOD finds that Duke's response is satisfactory.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served upon the following parties by first class mail, postage prepaid, and by electronic mail this 26th day of June 2009.

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