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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. 11-3223-EL-USF

OHIO DEPARTMENT OF DEVELOPMENT
NOTICE OF INTENT TO FILE AN APPLICATION
FOR ADJUSTMENTS TO UNIVERSAL SERVICE FUND RIDERS

By its opinion and order of December 15, 2010 in Case No. 10-725-EL-UNC, the Commission granted the amended application of the Ohio Department of Development ("ODOD") for an order approving adjustments to the Universal Service Fund ("USF") riders of the state's jurisdictional electric distribution utilities ("EDUs"). In granting the amended application, the Commission adopted a December 7, 2010 stipulation and recommendation ("Stipulation") jointly submitted by ODOD and a majority of the other parties to the proceeding.[1] In addition to recommending approval of the 2010 USF rider rates proposed in the amended application, the Stipulation, consistent with the Commission's orders in all prior Section 4928.52(B), Revised Code, USF rider rate adjustment proceedings, required ODOD to file its next annual USF rider rate adjustment application not later than October 31 of the following year (Stipulation, Paragraph 10). The stipulation also provided for the continuation of the Notice of Intent ("NOI") process first approved by the Commission in Case No. 04-1616-EL-UNC

[1] The signatory parties were ODOD, The Cleveland Electric Illuminating Company, Columbus Southern Power Company, The Dayton Power and Light Company, Duke Energy Ohio, Ohio Edison Company, Ohio Power Company, The Toledo Edison Company, Industrial Energy Users – Ohio, and Ohio Partners for Affordable Energy. The Commission staff, although not a signatory party, did not oppose the stipulation. Although the Office of the Ohio Consumers' Counsel ("OCC"), the only other party to the proceeding, did not join in the Stipulation, OCC did not contest its adoption by the Commission.

(Opinion and Order dated December 8, 2004), whereby ODOD is required to make a preliminary filing by May 31 setting out the methodology it will employ in developing the USF rider revenue requirements and rate design for its subsequent annual application (Stipulation, Paragraph 11).

The NOI process is intended to address the potential timing problem associated with securing Commission approval of ODOD's annual USF rider rate adjustment application sufficiently in advance of the EDU January billing cycles in order to implement the new rider rates at the outset of the annual collection period assumed in developing the new rider rates. Although the October 31 filing deadline provides the Commission with sufficient time to act prior to January 1 of the following year if the ODOD application is not contested, the signatories to the Stipulation recognized that this two-month interval may not be adequate if a party to the proceeding wishes to litigate issues raised in its objections to the application (*Id.*). However, the signatories also recognized that simply advancing the filing deadline to assure that the new USF rider rates can take effect in January of the following year would require ODOD to calculate the proforma USF rider revenue requirements proposed in the application based predominantly on estimated data, which might well produce a result that is not indicative of the revenue requirements that ODOD will ultimately propose once additional actual test-period data becomes available (*Id.*). Thus, to afford an objecting party the opportunity to pursue methodological issues it may wish to raise, while avoiding imposing an unnecessary burden on ODOD, the Stipulation established the following process:

> On or before May 31, 2011, Development shall file with the Commission a notice of its intent to submit its annual USF rider adjustment application, and shall serve the NOI on all parties to this proceeding. The NOI shall set forth the methodology Development intends to employ in calculating the USF rider revenue requirement and in designing the USF rider rates in preparing its 2011 USF rider rate adjustment application, and may also include such other matters as Development deems appropriate. Upon the filing of the notice of intent, the Commission will open the 2011 USF rider adjustment application

> docket and will establish a schedule for the filing of objections or comments, responses to the objections or comments, and, if a hearing is requested, a schedule for discovery, the filing of testimony, and the commencement of the hearing. The Commission will use its best efforts to issue its decision with respect to any objections raised not later than September 30, 2011. Development will conform its 2011 USF rider adjustment application to any directives set forth in the Commission's decision. If the order is not issued sufficiently in advance of the October 31, 2011 filing deadline to permit Development to incorporate such directives, Development will file an amended application conforming to the Commission's directives as soon as practicable after the order is issued.

Id.[2]

Pursuant to this provision of the Stipulation, ODOD hereby submits its notice of intent to submit its annual USF rider adjustment application on or before October 31, 2011. The methodology ODOD intends to employ in developing USF rider revenue requirement and rate design for purposes of its 2011 application are described below.

<u>USF Rider Revenue Requirement Methodology</u>:

The USF rider revenue requirement proposed for each EDU in ODOD's 2010 application will consist of the following elements:

1. <u>Cost of PIPP</u>. The cost of PIPP component of the USF rider revenue requirement will be based on the total cost of electricity consumed by the company's PIPP customers for the 12-month period January 2011 through December 2011 (the "test period"), plus pre-PIPP balances, less the total PIPP installment payment obligations of PIPP customers and all payments made on behalf of PIPP customers, including agency payments, over the same period. This methodology for determining the cost of PIPP is not identical to that used in previous USF rider

[2] As noted in the Stipulation, the objections contemplated by this provision are objections relating to something other than mathematical accuracy of ODOD's calculations. Objections of that nature, which can almost certainly be resolved informally in timely manner under the current process, will still be entertained subsequent to the filing of the application itself (Stipulation, Paragraph 11, n. 2).

rate adjustment cases due to a program change implemented by ODOD's new electric PIPP Plus rules, which took effect November 1, 2010. Previously, the offset to the cost of electricity and pre-PIPP balances included the total PIPP installment payments made by PIPP customers during the test period. However, under new Rule 122:5-3-04(B)(2), Ohio Administrative Code, ODOD no longer reimburses the EDU for the difference the PIPP installment payments actually collected and the customer's actual bill for the electricity consumed. Rather, ODOD now reimburses the EDU for the difference between the specified PIPP installment payment amount and the actual bill, thereby making the EDU responsible for the PIPP customer's failure to make the specified installment payment. Thus, the methodology for calculating the cost of PIPP in this case must reflect this rule change.[3]

In calculating the cost of PIPP, ODOD will utilize actual data available through August 2011, and projected data, based on the actual September-December 2010 experience, for the remaining months of the test period. If the timing permits, ODOD, as in all prior USF rider rate adjustment proceedings, will file an amended application to incorporate additional actual test-period data that becomes available subsequent to the preparation of the initial application.

As in prior cases, ODOD will propose adjustments to the test-period cost of PIPP to annualize the impact of EDU rate increases that take effect during the test period, as well as any known post-test period EDU rate increases that will affect the cost of PIPP during the 2012 collection period. In addition, as in Case Nos. 09-463-EL-UNC and Case No. 10-725-EL-UNC, ODOD will propose an adjustment to capture the impact of the anticipated increase in PIPP

[3] Rule 122:5-3-04(B)(2), Ohio Administrative Code, provides:

> Electric distribution utilities shall not be entitled to recover from the fund, and they shall not charge to the director, any deficiencies accruing as a result of a PIPP customer's failure to pay monthly PIPP installment amounts.

enrollment on the cost of PIPP during the during the 2012 collection period. Consistent with the methodology approved by the Commission in those proceedings, the projected 2012 PIPP enrollment will be based on an analysis of the historical year-over-year increases in PIPP enrollment over the most recent five-year period.

In addition to the change in ODOD's reimbursement obligation described above, the new electric PIPP Plus rules, among other things, reduce the percentage of income on which PIPP customer installment payments are based, provide that PIPP installment payments be made year round, and create additional incentives for customers to make timely monthly payments on a continuous basis.[4] Each of these measures are intended to reduce the cost of PIPP from what it otherwise would have been. The effect of these rule changes on the cost of PIPP will be reflected in the data for the actual months of the 2011 test-period (*i.e.*, January-August 2011), and in November and December 2011 by virtue of the use of November and December 2010 experience as a surrogate for those months. However, because the program was operating under the old rules prior to November 1, 2010, the data for the surrogate months of September and October 2011 will not capture the impact of the rule changes. Although, in theory, it would be appropriate to adjust the actual September and October 2010 data to reflect the rule changes, as a practical matter, it is not feasible to do so because, for the most part, the adjustments would have to be made at the individual customer level. Further, as in all prior USF rider rate adjustment cases, ODOD intends to file an amended application after October 31, 2011 to replace the September 2010 data with actual data for September 2011 once it becomes available. Thus, ultimately, there will only be one month of test-period data that will not reflect the impact of the new rules on the cost of PIPP, and, to the extent that the inability to adjust the data for this month results in an overstatement of the cost of PIPP during the 2012 collection period, ratepayers will

[4] *See* Rule 122:5-3-04, Ohio Administrative Code.

ultimately be made whole through the December 31, 2012 PIPP account balance adjustment that will be performed as a part of ODOD's 2012 USF rider rate adjustment application. Accordingly, ODOD will not propose an adjustment in its application in this case to recognize the effect of these rule changes.

2. Electric Partnership Program Costs. This USF rider revenue requirement component is intended to recover the cost of the low-income customer energy efficiency programs funded out of the USF pursuant to Section 4928.56(A)(2) and (3), Revised Code. Although once separately designated as the Electric Partnership Program ("EPP") and the Consumer Education ("CE") program, ODOD now regards the CE program as part of the EPP and refers to these activities, collectively, as the Electric Partnership Program. In all previous USF rider adjustment cases, the Commission has accepted the $14,946,196 EPP allowance first proposed by ODOD when the initial USF riders were established in the EDU electric transition plan ("ETP") proceedings.[5] Prior to 2009, expenditures for these programs did not reach the estimated levels, but ODOD was consistently forced to utilize the EPP surplus to cover shortfalls resulting from the amounts by which the actual cost of PIPP during the collection periods exceeded the test-period cost of PIPP built into the USF rider rates.

As a result of negotiations with the Office of the Ohio Consumers' Counsel ("OCC") in the NOI phase of Case No. 05-717-EL-UNC, ODOD and OCC entered into a settlement agreement (the "ODOD-OCC Settlement") whereby ODOD agreed to make certain changes in the methodology to be proposed for determining the USF rider revenue requirement in future

[5] When initially proposed, $7,050,000 of this total represented the estimated cost of the EPP programs, $6,000,000 represented the estimated cost of the CE program, and the remainder, or $1,896,196, represented the estimate of Development's Office of Energy Efficiency administrative costs, including the cost of contractual services associated with these programs.

proceedings.[6] Consistent with the ODOD-OCC Settlement, ODOD's proposed allowance for EPP costs in this case will be based on its projection of payments to EPP providers and the administrative costs associated with ODOD's oversight of the EPP during the 2012 collection period. The analysis supporting ODOD's current projection of 2012 EPP costs of $14,946,196 is set forth in attached Exhibit A. ODOD believes that this analysis fully supports the inclusion of an allowance for EPP costs in this amount in determining the total USF rider revenue requirement for purposes of this case. ODOD will reexamine this projection prior to filing its application, and will include an exhibit in its application setting forth the updated projection, if any. As in all prior USF rider rate adjustment applications, ODOD will allocate this component of the revenue requirement among the EDUs based on the ratio of their respective costs of PIPP to the total cost of PIPP.

3. Administrative Costs. In establishing the original USF riders and those approved in Case No. 01-2411-EL-UNC, the Commission included an allowance of $1,932,561 for the administrative costs associated with low-income customer assistance programs to be included in the USF rider revenue requirement pursuant to Section 4928.52(A)(3), Revised Code. In the next four annual USF rider adjustment proceedings, Case Nos. 02-2868-EL-UNC, 03-2049-EL-UNC, 04-1616-EL-UNC, and 05-717-EL-UNC, the Commission accepted ODOD's $1,578,000 estimate as the allowance for administrative costs. However, as a part of the ODOD-OCC Settlement, ODOD agreed that, in future USF rider rate adjustment proceedings, ODOD's proposed allowance for administrative costs would be based on the administrative costs incurred during the test period, subject to such adjustment(s), plus or minus, for reasonably anticipated post-test period cost changes as may be necessary to assure, to the extent possible, that the

[6] The terms of the Development-OCC Settlement are set forth in the Commission's December 14, 2005 opinion and order in Case No. 05-717-EL-UNC.

administrative cost component of the USF rider revenue requirement will recover the administrative costs incurred during the collection year. Accordingly, as in all subsequent USF rider rate adjustment applications, the requested allowance for administrative costs proposed in ODOD's application in this case will be based on this methodology, and will be supported by testimony submitted in conjunction with the application. As in all prior USF rider rate adjustment proceedings, the requested allowance for administrative costs will be allocated among the EDUs based on the relative number of PIPP customer accounts as of the month of the test period exhibiting the highest PIPP customer account totals.

4. December 31, 2011 PIPP Account Balances. Because the USF rider rates are calculated based on historical sales and historical PIPP enrollment patterns, the USF riders will, in actual practice, either over-recover or under-recover the target revenue requirements during the collection period. Over-recovery creates a positive PIPP USF account balance for the EDU in question, thereby reducing the amount needed on a forward-going basis. Conversely, where under-recovery has created a negative PIPP USF account balance as of the effective date of the new riders, there will be a shortfall in the cash available to ODOD to make the PIPP reimbursement payments due the EDU. Thus, the amount of any existing positive PIPP USF account balance must be deducted in determining the target revenue level the adjusted USF rider is to generate, while the deficit represented by a negative PIPP USF account balance must be added to the associated revenue requirement. In its application in this case, ODOD will request that its proposed USF riders be implemented on a bills-rendered basis effective January 1, 2012. Accordingly, the USF rider revenue requirement of each company will be adjusted by the amount of the company's projected December 31, 2010 PIPP account balance so as to synchronize the new riders with the EDU's PIPP USF account balance as of their effective date.

5. Reserve. Due, in large measure, to the weather-sensitive nature of electricity sales and PIPP enrollment behavior, PIPP-related cash flows fluctuate throughout the year. These fluctuations will, from time-to-time, result in negative PIPP USF account balances, which in turn, means that ODOD will be unable to satisfy its monthly reimbursement obligation to the EDU on a timely basis. To address this situation, the Commission, in its order in Case No. 01-2411-EL-UNC, approved ODOD's proposal to include a component in the USF rider to establish a reserve to serve as a cushion in those months where there would otherwise be a deficiency in a given company's PIPP account balance. In an attempt to mitigate the impact on ratepayers, ODOD utilized various methods for calculating this cash working capital element of the USF rider revenue requirement over the 2001-2005 period. However, none of these methodologies proved effective in eliminating USF reserve shortfalls during the collection period. Thus, in its application in Case No. 06-751-EL-UNC, ODOD abandoned these more conservative approaches, and the stipulation adopted by the Commission in that case specified that the required reserve was to be based on the EDU's highest monthly deficit during the test period. This methodology was approved by the Commission in each subsequent annual USF rider rate adjustment proceeding, and will again be proposed by ODOD in its application in this case.

Prior to the implementation of the new electric PIPP Plus, ODOD was subject to carrying charges on monthly payments reimbursing the EDU for the cost of electricity delivered to PIPP customers that were not received by the EDU by the specified due date. Although the reserve component was designed to fully fund the EDU reserves on a pro forma basis by the end of the collection period, because USF cash flows fluctuate considerably over the course of the year, ODOD remained susceptible to these carrying charges, and, as a result, included an allowance for these interest costs as a component of the USF rider revenue requirement. Under the new rules, the due date for ODOD's monthly reimbursement payments to the EDUs has been significantly extended, and the interest rate used to compute carrying charges for late reimbursement payments has been reduced to the statutory interest rate applicable to late payments by state agencies pursuant to Section 126.30, Revised Code. Thus, as ODOD noted in the NOI in Case No. 10-725-EL-USF, its exposure to carrying charges for late reimbursement payments to the EDUs is now *de minimis*. Accordingly, ODOD did not propose an allowance for interest costs in its application in that case, and will not propose and such an allowance here.

6. Allowance for Undercollection. As in past applications, ODOD will propose to include a component in the USF rider revenue requirement to recognize that, due to the difference between amounts billed through the USF rider and the amounts actually collected from customers, the rider will not generate the target revenues. The proposed allowance for undercollection for each EDU will again be based on the actual collection experience of that company.

7. Allowance for EDU Audit Costs. Consistent with the recommendation of the USF Rider Working Group, ODOD has caused audits[7] to be conducted of each EDU's PIPP-related accounting and reporting to assure that the ODOD-EDU interface was functioning in accordance with ODOD's expectations and to the identify any systemic problems that could indicate that the cost of PIPP recovered from ratepayers through the USF riders of the respective EDUs had been overstated. These audits were staggered, with audits of The Dayton Power and Light Company ("DPL") and the FirstEnergy operating companies (The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company) conducted in 2007, and the audits of Duke Energy Ohio ("Duke") and the AEP Ohio operating companies (Columbus Southern Power Company and Ohio Power Company) conducted in 2008. Thus,

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[7] Although characterized as an "audit" in the initial RFP, the work performed by the firm awarded the contract was actually an "application of agreed-upon procedures" designed to test the subject EDU's performance in specific areas. However, the terms are used interchangeably herein.

consistent with the stipulations that resolved Case Nos. 06-751-EL-UNC and 07-661-EL-UNC, the USF rider revenue requirements approved in those proceedings included an allowance for the cost of these audits.

ODOD proposed in its NOI in Case No. 09-463-EL-UNC that the agreed-upon procedures utilized in the first round of audits be refined to provide for a more in-depth analysis of particular areas of risk, and that all the EDUs should be subject to a second round of audits in 2010. Accordingly, ODOD proposed in its application that an allowance be included in the USF rider revenue requirement for the cost of these studies. However, in its amended application in Case No. 09-463-EL-UNC, ODOD withdrew its request of an allowance for the cost of the audits of DPL, the FirstEnergy companies, and the AEP Ohio companies. As explained in the supplemental testimony of ODOD witness Donald A. Skaggs filed in support of the amended application, ODOD was concerned that going forward with these audits in 2010 could jeopardize the timely implementation of the new electric PIPP Plus rules then under consideration because these audits would impose a significant additional burden on the same EDU personnel responsible for implementing the extensive internal changes required to meet the November 1, 2010 effective date of the new rules.[8] In addition, ODOD concluded that delaying the second round of audits until after the changes had been implemented would be more productive because the review period covered by a 2010 audit would result in a reexamination of the PIPP-related accounting and reporting practices that had already been examined in the first round of audits, and would not test the EDUs' performance under the new rules.[9] Thus, although the Stipulation approved by the Commission in Case No. 09-463-EL-UNC did provide for an allowance for the

[8] Case No. 09-463-EL-UNC, Development Exhibit 4, at 8-9.
[9] Case No. 09-463-EL-UNC, Development Exhibit 4, at 9.

cost of a Duke audit in 2010, no allowances for audit costs were incorporated in the USF rider revenue requirements of the other EDUs.[10]

In its NOI in Case No. 10-725-EL-USF, ODOD indicated that it would not propose an allowance for audit costs in its application in that case, noting that conducting audits in 2011 would not capture sufficient post-November 1, 2010 data to permit an effective test the of EDU performance under the new electric PIPP Plus rules. Because, with the exception of the Duke audit, the first round of audits had not identified any areas of significant risk that were not subsequently addressed by the subject EDUs to ODOD's satisfaction, ODOD concluded that reexamining the EDUs' performance under the old rules would not be an efficient use of ratepayer funds. Accordingly, ODOD indicated that it would delay a second round of audits until the review period encompassed by the audits would permit a meaningful analysis of the EDUs' performance under the new rules. That objective will be achieved by audits conducted in 2012. Thus, ODOD will include an allowance for EDU audit costs as an element of the USF rider revenue requirement proposed in its application in this case.

8. <u>Universal Service Fund Interest Offset</u>. Section 4928.51(A), Revised Code, provides that interest on the USF shall be credited to the fund. Although the fund has, from time to time, generated interest income, ODOD, in the early years of the fund, was routinely forced to

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[10] As ODOD witness Skaggs explained in his supplemental testimony in Case No. 09-463-EL-UNC, several open issues remained as a result of the Duke audit conducted in conjunction with the 2008 USF rider adjustment case. These issues were proceeding on a separate procedural track and had not been resolved at the time the amended application in Case No. 09-463-EL-UNC was filed. Mr. Skaggs noted that, if these issues could not be resolved, an in-depth audit might be necessary to quantify the impact of these issues on Duke's ratepayers. In the absence of an allowance for the cost of this audit in the revenue requirement, Development would not be able to fund the audit if it were found that if it ultimately determined that an additional audit is required. Thus, the current Commission-approved Duke USF rider rate includes an allowance for the cost of the additional audit. *See* Case No. 09-463-EL-UNC (Opinion and Order dated December 16, 2009, at 15).

utilize such income to cover shortfalls resulting from the amounts by which the actual cost of PIPP during the collection periods exceeded the test-period cost of PIPP built into the USF rider rates. Thus, historically, ODOD did not consider the availability of USF interest income in determining the USF rider revenue requirements. The ODOD-OCC Settlement in the NOI phase of Case No. 05-717-EL-UNC provided that, in developing the proposed USF rider revenue requirement in future USF rider rate adjustment applications, ODOD would offset the projected USF interest balance, if any, at the end of the test period so as to flow back any accumulated interest to customers over the collection period. Accordingly, ODOD specifically identified this USF interest offset as a part of the revenue requirements methodology proposed in its NOI in Case No. 06-751-EL-UNC. However, Section 312.06 of the 2005 state budget bill, HB 66 of the 126th General Assembly, authorized the Office of Budget and Management ("OBM"), through June 30, 2007, to transfer interest earned on various funds within the state treasury to the General Revenue Fund. OBM identified the Universal Service Fund ("USF") as one of the funds that is subject to such interest transfers, notwithstanding that Section 4928.51(A), Revised Code, provides that interest on the USF should be credited to the USF. Although ODOD opposed the use of USF interest for other purposes, OBM did not reverse its position and periodically siphoned off all USF interest. Thus, there was no interest available as of December 31, 2006 to be used as an offset in determining the USF rider revenue requirements in Case No. 06-751-EL-UNC.

The state budget bill for fiscal years 2008 and 2009 continued to authorize this transfer of interest from the USF (*see* Section 512.03 of HB 119 of the 127th General Assembly). Thus, as in Case No. 06-751-EL-UNC, there was no USF interest available to ODOD as of the end of the test periods in Case Nos. 07-661-EL-UNC and 08-658-EL-UNC. The state budget bill for fiscal years 2010 and 2011 (*see* Section 512.10 of Am. Sub. HB 1 of the 128th Ohio General

Assembly) again authorized this practice, which meant that no USF interest was available to ODOD at the end of the test periods in Case Nos. 09-463-EL-UNC and 10-725-EL-USF. Thus, ODOD did not include a USF interest offset to the USF revenue requirements proposed in those cases.

Because the state budget bill for fiscal years 2012 and 2013 has not yet been enacted, it is not known at this time if OBM will again be authorized to transfer interest from the USF. However, if that is the case, ODOD will not include an interest offset to the USF revenue requirement proposed in those cases because there will be no interest available to ODOD at the end of the 2011 test-period.

USF Rider Rate Design Methodology:

ODOD will propose to recover the annual USF rider revenue requirement for each EDU through a USF rider that incorporates a two-step declining block rate design of the type approved by the Commission in all prior ODOD USF rider adjustment applications. The first block of the rate will apply to all monthly consumption up to and including 833,000 Kwh. The second rate block will apply to all consumption above 833,000 Kwh per month. For each EDU, the rate per Kwh for the second block will be set at the lower of the Percentage of Income Payment Plan ("PIPP") charge in effect in October 1999 or the per Kwh rate that would apply if the EDU's annual USF rider revenue requirement were to be recovered through a single block per Kwh rate. The rate for the first block rate will be set at the level necessary to produce the remainder of the EDU's annual USF rider revenue requirement. Thus, in those instances where the EDU's October 1999 PIPP charge exceeds the per Kwh rate that would apply if the EDU's annual USF rider revenue requirement were to be recovered through a single block per Kwh rate, the rate for both consumption blocks will be the same.

WHEREFORE, consistent with the terms of the Stipulation approved by the Commission in Case No. 10-725-EL-UNC, ODOD respectfully requests that the Commission:

1. Accept this notice of intent for filing and open ODOD's 2011 USF rider adjustment application docket;

2. Find that all jurisdictional Ohio electric distribution utilities are indispensable parties to this proceeding and join them as such;

3. Establish a schedule for the filing of motions to intervene, the filing of objections or comments regarding matters set forth in the notice of intent, the filing of responses to any such objections or comments, and, if a hearing is requested, a schedule for discovery, the filing of testimony, and the commencement of the hearing;

4. Use its best efforts to issue its decision with respect to issues raised not later than September 30, 2011 to permit ODOD to conform its 2011 USF rider adjustment application to Commission's resolution of those issues;

5. Cause a copy of all entries issued in this docket to be served upon all parties of record in Case No. 10-725-EL-USF.

Respectfully submitted,

Barth E. Royer
Bell & Royer Co., LPA
33 South Grant Avenue
Columbus, Ohio 43215-3927
(614) 228-0704 – Telephone
(614) 228-0201 – Fax
BarthRoyer@aol.com - Email

Attorney for
Ohio Department of Development

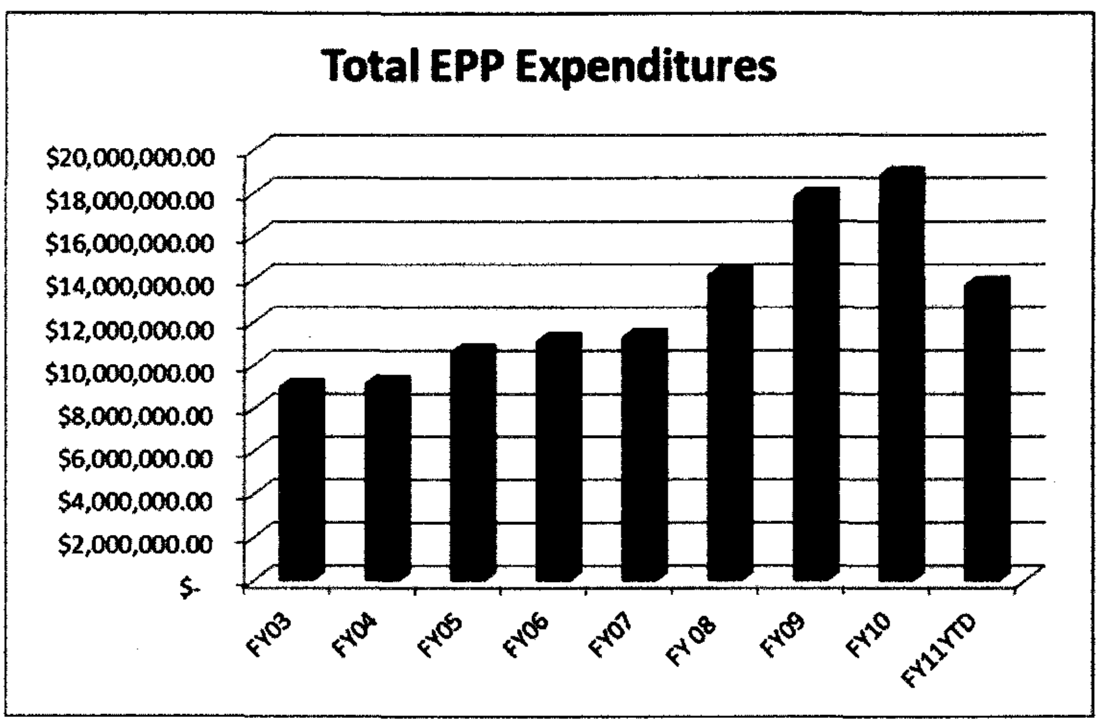
EXHIBIT A
Notice of Intent
Case No. 11-3223-EL-UNC

ELECTRIC PARTNERSHIP PROGRAM
Projected 2012 Costs

Based on its current projection of the cost of the Electric Partnership Program ("EPP") during the 2012 collection period, ODOD will again propose in its application in this case that an allowance of $14,946,196 for EPP costs be included in the Universal Service Fund ("USF") rider revenue requirement. This is the same allowance for EPP costs approved by the Commission in all prior USF rider rate adjustment proceedings, and is consistent with the annual appropriation authorization for EPP sought by ODOD for inclusion in the 2012-2013 state biennium budget.

Like other components of the USF rider revenue requirement, the allowance for EPP costs proposed in ODOD's USF rider rate adjustment applications is an annual allowance. However, to conform to the state's budgeting process, ODOD tracks EPP costs on a fiscal year basis (July 1 to June 30), and, thus, has used fiscal year data as a surrogate for calendar year data in presenting the annual costs supporting its proposed allowance for EPP.

The following graph displays the total annual EPP expenditures for each of the last nine fiscal years. As indicated, the FY 2011 bar represents the year-to-date amount, and it is anticipated that additional expenditures prior to July 1, 2011, will bring the actual FY 2011 figure close to the $14,946,196 EPP budget amount.



As illustrated by the graph, EPP expenditures increased each year from the program's inception through FY 2005 as the program ramped up before leveling off in FY 2006 and FY 2007. However, in FY 2008, EPP expenditures were significantly higher than in any prior fiscal year, and continued to increase through FY 2010 to the highest level since the program began in 2002.

From FY 2002 though FY 2008, ODOD's ability to utilize the total amount budgeted for EPP was constrained by several factors, including initial implementation issues, the pace of the program's ramp up, changes in providers, and the production pattern of providers over the terms of their contracts. As the demand for program services increased due to the ever-increasing number of PIPP and PIPP-eligible Ohioans, ODOD looked to the accumulated unspent EPP funds from prior years to meet this demand, which enabled ODOD to fund the program in FY 2009 and FY 2010 at levels substantially above the Commission-approved $14,946,196 allowance for EPP costs. However, in FY 2011, ODOD limited the funding to the budgeted amount, which accounts for decrease in FY 2011 year-to-date EPP expenditures on the graph.

Table 1 shows the detail of the EPP expenditures for FY 2008, FY 2009, FY 2010, FY 2011, as well as the proposed EPP budget for FY 2012 submitted by ODOD in connection with the state's biennial budget process.

Table 1

	EPP Expenses				
	FY 2008	FY 2009	FY 2010	FY 2011 7/1/10-5/19/0211	FY 2012 Budget
PROGRAM SERVICES					
CONTRACT SERVICES	$ 11,479.00	$ 154,979.00	$ 27,397.23	$ -	$ 50,000.00
PROVIDER GRANTS	$ 13,510,879.52	$17,195,966.75	$18,527,692.76	$13,380,771.01	$14,319,196.00
SUBTOTALS	**$ 13,522,358.52**	**$ 17,350,945.75**	**$ 18,555,089.99**	**$ 13,380,771.01**	**[illegible]**
ADMINISTRATIVE EXPENSES					
PAYROLL	$ 468,230.49	$ 381,630.98	$ 200,307.59	$ 249,355.81	$ 350,000.00
SUPPLIES /MAINT/ PRINTING	$ 7,930.86	$ 4,892.40	$ 25,663.47	$ 19,065.98	$ 22,000.00
TRAVEL	$ 8,154.88	$ 2,290.12	$ 1,735.91	$ 3,124.11	$ 5,000.00
EQUIPMENT	$ -	$ -	$ -	$ -	$ 25,000.00
INDIRECT COST	$ 232,543.46	$ 164,538.10	$ 95,650.93	$ 127,176.25	$ 175,000.00
SUBTOTALS	**$ 716,859.69**	**$ 553,351.60**	**$ 323,357.90**	**$ 398,722.15**	**$ 577,000.00**
Admin as % of total	**5.03%**	**3.09%**	**1.71%**	**2.89%**	**3.86%**
TOTALS	**$14,239,218.21**	**$17,904,297.35**	**$18,878,447.89**	**$13,779,493.16**	**$14,946,196.00**

As evidenced by the provider grant expenses of $17,195,966 and $18,527,692 in FY 2009 and FY 2010, respectively, the use of accumulated unspent EPP funds permitted ODOD to support provider production in those years well above the levels contemplated by the annual EPP budgets. However, as in FY 2011, ODOD intends to limit provider grants to the budgeted amount in FY 2012. Thus, consistent with the objective of the budgeting process, ODOD believes that its FY 2012 budget for EPP reasonably reflects the level of EPP expenditures that will be made in the coming year and, thus, represents the appropriate basis for establishing the allowance for EPP costs in this case.

The objective of the EPP program is, of course, to reduce the electricity consumption of the targeted low-income population, which, in turn, will reduce the burden that the PIPP program imposes on all EDU ratepayers. The new PIPP Plus rules that were implemented November 1, 2010 will further this objective. Under the old rules, PIPP customers paid their specified PIPP installment amount during the heating season, but were required to pay the full amount of their actual bills for service during the summer. Thus, any energy conservation savings achieved during the summer inured solely to the benefit of the PIPP customer, notwithstanding that EDU ratepayers funded the EPP program. Under PIPP Plus, PIPP customers make their standard installment payment each month, not just during the heating season. Thus, all energy savings achieved will reduce the cost of PIPP, thereby benefitting EDU ratepayers year round. In addition, under the new PIPP Plus rules, PIPP customers are required to accept EPP services when offered. Failure to do so results in the customer being dropped from the PIPP program until such time as the offered services are accepted.

ODOD has implemented modifications to the EPP program for the current program year in an effort to maximize the cost benefit to EDU ratepayers. ODOD determined that the Moderate-Use component of the program was not cost justified and eliminated that component, while dropping usage eligibility criteria for the High-Use component of EPP from 6,000 kWh to 5000 kWh of annual use from the prior 6000 kWh to capture those customers previously eligible for the Moderate-Use component for which that component of the EPP program proved cost effective. In addition, the time period for metering a refrigerator was reduced from two hours to one hour to reduce the time and cost of the provider audit. Finally, the measure costs were also reviewed, and the light bulb prices were revised to reflect the current market prices of these items.

EPP has become a fully mature program with experienced providers and public recognition. EPP has proven that it can utilize ratepayer funds in a cost-effective manner to reduce the energy consumption of PIPP participants. But ODOD must also weigh the cost of this program to the ratepayers, especially in light of the economic conditions in the state. ODOD believes that the continuation of the $14,946,196 allowance for EPP costs is reasonable. This funding level will enable the providers to help over 16,000 eligible Ohioans, without increasing the cost to ratepayers. As explained in the Notice of Intent, ODOD will reexamine these projections prior to filing its application, and, if the updated projections suggest that the $14,946,196 allowance is no longer appropriate, ODOD will revise the requested allowance at that time.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Notice of Intent has been served upon the following parties by first class mail, postage prepaid, this 31st day of May 2011.

Barth E. Royer

Randall V. Griffin
Judi L. Sobecki
The Dayton Power & Light Company
MacGregor Park
1065 Woodman Avenue
Dayton, Ohio 45432

Matthew J. Satterwhite
Steven T. Nourse
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215

Elizabeth H. Watts
Duke Energy Ohio, Inc.
155 East Broad Street
21st Floor
Columbus, Ohio 43215

Carrie Dunn
Kathy J. Kolich
FirstEnergy Corp.
76 South Main Street
Akron, Ohio 44308

Janine Migden-Ostrander
Ann Hotz
Ohio Consumers' Counsel
10 West Broad Street
Suite 1800
Columbus, Ohio 43215-3485

Samuel C. Randazzo
Gretchen J. Hummel
McNees, Wallace & Nurick
Fifth Third Center
Suite 910
21 East State Street
Columbus, Ohio 43215

David C. Rinebolt
Colleen L. Mooney
Ohio Partners for Affordable Energy
PO Box 1793
231 West Lima Street
Findlay, Ohio 45839-1793