

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	:	
Columbus Southern Power Company and	:	
Ohio Power Company, Individually	:	Case No. 11-351-EL-AIR
and, if Their Proposed Merger is	:	Case No. 11-352-EL-AIR
Approved, as a Merged Company	:	
(collectively AEP Ohio) for an Increase	:	
in Electric Distribution Rates.	:	

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DIRECT TESTIMONY  
OF  
DONALD A. SKAGGS  
ON BEHALF OF  
THE OHIO DEPARTMENT OF DEVELOPMENT

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**DIRECT TESTIMONY OF DONALD A. SKAGGS**  
**On Behalf of The Ohio Department of Development**

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

2 A. My name is Donald A. Skaggs. My business address is Ohio Department of  
3 Development ("ODOD"), 77 South High Street, 25th Floor, Columbus, Ohio 43216-  
4 1001.

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

6 A. I am employed by ODOD in its Office of Community Services ("OCS") as Assistant  
7 Office Chief.

8 **Q. Please briefly describe your educational background and employment experience.**

9 A. I have a B.A. from Miami University and an M.S.W. from the University of Michigan. I  
10 have been employed by the state of Ohio for thirty-five years, twenty-eight of which have  
11 been with ODOD. Most of my professional experience has been concentrated in the  
12 areas of program evaluation and program management. Prior to being named Assistant  
13 Office Chief in 2008, I was the OCS Research and Planning Manager. In that capacity, I  
14 was responsible for the procedures that enable OCS to meet the compliance requirements  
15 of various federal programs, and was also responsible for the management of large data  
16 bases, data analyses, and preparing related reports. During the administration of  
17 Governor Voinovich, I served two years as an Executive on Loan to the Governor's  
18 Office of Family and Children First.

19 **Q. What are your duties and responsibilities as OCS Assistant Office Chief?**

20 A. As Assistant Office Chief, I am responsible for the management of several programs,  
21 including the electric Percentage of Income Payment Plan ("PIPP") program, the Home

1 Weatherization Assistance Program, the Electric Partnership Program, and the  
2 Community Services Block Grant program.

3 **Q. What is your role with respect to the electric PIPP program?**

4 A. Since the legislature assigned ODOD responsibility for administering the Universal  
5 Service Fund ("USF") and the electric PIPP program in 1999, I have been the ODOD  
6 staff person primarily responsible for developing the USF monthly reporting procedures  
7 for the electric distribution utilities ("EDUs"). I prepared the exhibits that were submitted  
8 with ODOD's filings in the electric transition plan ("ETP") cases in which the initial USF  
9 riders were established and in each of ODOD's subsequent annual USF rider rate  
10 adjustment applications (Case Nos. 01-2411-EL-UNC, 02-2868-EL-UNC, 03-2049-EL-  
11 UNC, 04-1616-EL-UNC, 05-717-EL-UNC, 06-751-EL-UNC, 07-661-EL-UNC, 08-658-  
12 EL-UNC, 09-463-EL-UNC, and 10-725-EL-USF). I also participated in the  
13 development of ODOD's new PIPP Plus rules, which became effective November 1,  
14 2010.

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

16 A. Yes. I submitted written testimony in support of ODOD's application in each of the  
17 annual USF rider rate adjustment proceedings identified in my previous answer. I also  
18 presented written and oral testimony in the Notice of Intent phase of Case No. 05-717-  
19 EL-UNC in support of ODOD's position on various issues.

20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. The purpose of my testimony is to support ODOD's objection to the Staff Report of  
22 Investigation issued in this proceeding. I explain the basis for ODOD's objection to the

1 Staff's failure to adjust the test-year expenses of the applicant utilities, Columbus  
2 Southern Power Company ("CSP") and Ohio Power Company ("OPC") (collectively,  
3 "AEP Ohio"), to include an allowance for the PIPP-specific uncollectible expense that  
4 will be created by ODOD's enactment of new Rule 122:5-3-04(B)(2), Ohio  
5 Administrative Code ("OAC"). I also present the adjustment to test-year expenses  
6 proposed by ODOD to account for the impact of this rule change.

7 **Q. What was the concern that led to the enactment of new Rule 122:5-3-04(B)(2),**  
8 **OAC?**

9 A. Under the electric PIPP program, the EDU is reimbursed for the difference between the  
10 PIPP customer's specified income-based monthly installment payment and the cost of the  
11 electricity delivered to the PIPP customer through payments collected from the EDU's  
12 ratepayers via the USF rider. Prior to the implementation of the electric PIPP Plus rules,  
13 the EDU remitted the installment payments collected from PIPP customers to ODOD  
14 along with the USF rider collections, and ODOD reimbursed the EDU for both the  
15 installment payments and the difference between the PIPP installment payments received  
16 and the cost of the electricity delivered to the PIPP customers. Thus, the EDU was  
17 guaranteed 100 percent recovery of the cost of electricity delivered to the PIPP customer  
18 under this process regardless whether the PIPP customer made the monthly PIPP  
19 installment payment. This guaranteed reimbursement meant that the EDU had no  
20 incentive to disconnect a defaulting PIPP customer promptly or to pursue collection  
21 aggressively once the customer was disconnected. ODOD believed that the absence of  
22 such an incentive may have resulted in the cost of PIPP collected from ratepayers through

1 the USF riders being greater than it would have been if the EDU were at risk for the PIPP  
2 installment amounts due.

3 **Q. How did ODOD address this concern in its new PIPP Plus rules?**

4 A. Under new Rule 122:5-3-04(B)(2), OAC, the EDU is no longer entitled to reimbursement  
5 from the USF for any revenue deficiency resulting from a defaulting PIPP customer's  
6 failure to pay his/her monthly installment payment. Although ODOD continues to  
7 reimburse the EDU for the difference between the PIPP installment amount and the  
8 amount of the actual bill based on the PIPP customer's metered consumption [*see* Rule  
9 122:5-04(B)(1), OAC], the EDU keeps the PIPP installment payments it collects and is  
10 now responsible for any PIPP installment amounts owed when a PIPP customer defaults.  
11 This places the defaulting PIPP customer installment payment balances on the same  
12 footing as the outstanding balances of defaulting customers, generally, and provides the  
13 same incentive for the EDU to limit its bad-debt exposure by promptly disconnecting the  
14 defaulting customers regardless whether they are PIPP or non-PIPP customers.

15 **Q. Do AEP Ohio's current base rates include any allowance for the PIPP uncollectible  
16 expense that will be generated by the enactment of Rule 122:5-3-04(B)(2), OAC?**

17 A. No. Although CSP's and OPC's current base rates include an allowance for uncollectible  
18 expense, because these rates were determined long before the implementation of the new  
19 PIPP Plus rules, the current base rates include no allowance for the additional  
20 uncollectible expense that will be generated now that the EDU is no longer reimbursed  
21 for the amount of PIPP customer installment payment defaults.

1 **Q. What measures did AEP Ohio propose to address the PIPP-related uncollectible**  
2 **expense that will be generated by the new rule?**

3 A. By a joint application filed January 11, 2011 in Case Nos. 11-148-EL-RDR and 11-149-  
4 EL-RDR (the “RDR cases”), CSP and OPC sought Commission approval of distribution  
5 riders to recover the incremental increase in uncollectible expense associated with the  
6 implementation of Rule 122:5-3-04(B)(2), OAC. The application also sought approval of  
7 accounting modifications to permit the Companies to defer this incremental PIPP  
8 uncollectible expense until such time as it is recovered through the proposed riders. The  
9 application in the RDR cases did not include any specific rider rates, but contemplated  
10 that once the riders were approved, the rider rates would be determined based on the  
11 actual PIPP-related bad debt experienced under the new rule and would be subject to  
12 adjustment after periodic reviews.

13 **Q. How did ODOD respond to the application in the RDR cases?**

14 ODOD moved to intervene in the RDR cases on February 25, 2011. In the memorandum  
15 accompanying its motion, ODOD explained that approval of the proposed PIPP-specific  
16 uncollectible expense riders would simply transfer the ratepayers’ obligation to reimburse  
17 the Companies for PIPP customer defaults from the USF riders to the proposed PIPP-  
18 specific uncollectible expense riders, thereby defeating the purpose of the rule change to  
19 the detriment of the USF and the Companies’ ratepayers.

20 **Q. Is it ODOD’s position that AEP Ohio is not entitled to recover the PIPP-related**  
21 **uncollectible expense that will be generated by its new rule?**

1 A. No. ODOD acknowledges that uncollectible expense is an ordinary business expense  
2 that AEP Ohio is entitled to recover from ratepayers. However, in its filings in the RDR  
3 cases, ODOD questioned why there should be a separate rider mechanism for recovering  
4 PIPP-specific uncollectible expense when the Companies have never found it necessary  
5 to seek approval of an uncollectible expense rider for non-PIPP customer bad debt (and  
6 approval of deferred accounting treatment for such uncollectible expense). Thus, ODOD  
7 argued that, like other uncollectible expense, PIPP-specific uncollectible expense should  
8 be recovered through an allowance in base rates, and suggested that the Commission  
9 consider taking up this issue in the context of the AEP Ohio's pending distribution rate  
10 increase applications in these dockets. On July 20, 2011, ODOD followed up on this  
11 suggestion by formally moving to consolidate the RDR cases with this proceeding to  
12 permit the Commission to consider this approach.

13 **Q. Why is it appropriate to recognize the PIPP uncollectible expense that will be**  
14 **generated by the new ODOD rule in base rates rather than through a PIPP-specific**  
15 **uncollectible expense rider?**

16 A. There are several reasons. First, as previously explained, guaranteeing dollar-for-dollar  
17 recovery of PIPP installment payment defaults via a PIPP-specific bad debt rider totally  
18 undermines the intent of the new rule, which is to provide the same incentive to the EDU  
19 to disconnect the defaulting PIPP customer promptly as it has with respect to all other  
20 defaulting customers. Second, it is my understanding that cost-recovery riders are  
21 typically authorized in instances where base-rate recovery of a cost the utility has no  
22 ability to control is problematic because the cost in question fluctuates significantly over

1 time. Although I recognize the Commission has approved uncollectible expense riders  
2 for natural gas utilities, I have been advised by counsel that these riders were originally  
3 authorized during a period when skyrocketing natural gas prices were generating  
4 extraordinary increases in bad debt expense. Under these volatile market conditions, the  
5 allowances for uncollectible expense that had been built into the gas companies' base  
6 rates were clearly inadequate, and rider recovery was seen a reasonable method to protect  
7 the gas utilities from this unavoidable increase in bad debt expense. However, the fact  
8 that CSP and OPC have never found it necessary to seek approval of uncollectible  
9 expense riders is evidence that base-rate recovery of uncollectible expense adequately  
10 protects them from the risk of customer default. Moreover, under the electric PIPP Plus  
11 program, the default amount at risk is limited to the amount of the unpaid PIPP  
12 installments. Because the EDU is reimbursed from the USF for the largest chunk of a  
13 PIPP customer's account balance, the amount at risk in the case of defaulting PIPP  
14 customers is significantly less than the amount at risk in the case of non-PIPP customers,  
15 which makes the case for base-rate recovery even stronger. Fourth, because of the  
16 carrying charges associated with deferrals, including an allowance for PIPP-specific  
17 uncollectible expense in base rates is less costly to ratepayers than recovering this  
18 expense through a rider. Finally, creating yet another AEP Ohio rider would place the  
19 additional burden of policing its operation upon the Commission, its Staff, and other  
20 interested parties.

21 **Q. What is AEP Ohio's position with respect to including an allowance for PIPP-**  
22 **specific uncollectible expense in the revenue requirement in this case?**



1 A. As I understand it, AEP Ohio does not disagree that, in theory, it would appropriate to  
2 recognize the PIPP uncollectible expense created by ODOD's new rule through the  
3 uncollectible expense allowance built into base rates, but believes that there is a legal  
4 impediment to including the new PIPP uncollectible expense in the uncollectible expense  
5 component of the revenue requirement in this case.

6 **Q. What is the basis for your interpretation that AEP agrees, in theory, that PIPP**  
7 **uncollectible expense should be recognized as an element of the uncollectible**  
8 **expense component of the base rate revenue requirement?**

9 A. In its August 4, 2011 memorandum contra ODOD's motion to consolidate, AEP Ohio  
10 stated that, in its next distribution rate case, it will seek recovery of the PIPP-specific  
11 uncollectible expense through base rates. Obviously, AEP Ohio would not make this  
12 commitment if it believed that recovering this expense through base rates was  
13 theoretically inappropriate or did not adequately address the associated bad debt  
14 exposure. In addition, during a meeting held last summer to discuss this issue, AEP Ohio  
15 representatives specifically acknowledged that it would have proposed base-rate recovery  
16 of the new PIPP uncollectible expense if the necessary data had been available at the time  
17 rate increase applications were prepared. During that discussion, AEP Ohio indicated it  
18 had never seen the need for a bad debt tracker because its under-collection percentage  
19 had remained relatively stable over time despite changes in economic conditions.

20 **Q. What is the legal impediment AEP Ohio has cited in opposing ODOD's proposal to**  
21 **recognize an allowance for PIPP uncollectible expense in this case?**

1 A. As explained in its memorandum contra, AEP Ohio did not have the actual data available  
2 at the time it prepared its rate increase application in late 2010 to include the PIPP  
3 uncollectible expense generated by ODOD's November 1, 2010 rule change in test-year  
4 expense. Because no adjustment was proposed in the application, AEP Ohio believes  
5 that it is precluded from seeking base-rate recovery and sees the PIPP-specific  
6 uncollectible expense riders proposed in its application in the RDR cases as the only way  
7 to recover this cost.

8 **Q. Do you agree?**

9 A. I am not an attorney, nor do I hold myself out as an expert on all aspects of utility  
10 ratemaking, but it is my understanding from discussions with counsel that the  
11 Commission permits adjustments to test-year expenses to reflect known cost changes  
12 beyond the control of the applicant utility and also permits normalization adjustments to  
13 assure that the test year provides a representative basis for setting rates. The test year in  
14 this case is the twelve months ending May 31, 2011. Sufficient actual data is now  
15 available to permit an adjustment to test-year uncollectible expense to annualize the  
16 impact of PIPP uncollectible expense on the revenue requirement. In view of the  
17 potential impact on ratepayers, both in terms of the cost of PIPP built into the USF rider  
18 rates and the carrying costs associated with the proposed deferrals, it would be contrary  
19 to ratepayers' interests for the Commission to authorize recovery of PIPP uncollectible  
20 expense through a PIPP-specific rider when it is possible to build a reasonable allowance  
21 for this expense into the base rates established in this case.

1 **Q. But inclusion of an allowance for this PIPP uncollectible expense in the uncollectible**  
2 **expense allowance in this case would result in a revenue requirement that exceeds**  
3 **that proposed by CSP and OPC in their applications, would it not?**

4 A. Yes. However, if ratepayers are better off under base-rate recovery than under the PIPP-  
5 specific uncollectible expense riders proposed in the RDR applications, I do not believe  
6 that the Commission should be constrained from authorizing recovery of the new PIPP  
7 uncollectible expense through base rates rather than through the riders proposed in the  
8 RDR cases. Moreover, I would point out that the resulting incremental adjustment to  
9 test-year expense is quite small when compared to the total revenue requirement  
10 proposed in the rate increase applications. Thus, only in the unlikely event that AEP  
11 Ohio were to get everything it asked for would the approved revenue requirement exceed  
12 that proposed in the rate increase applications. Further, I would note that the Office of  
13 the Ohio Consumers' Counsel ("OCC") also filed a motion to consolidate the RDR cases  
14 with the rate cases in which it advocates that PIPP uncollectible expense should be  
15 included in the overall allowance for uncollectible expense and recovered through base  
16 rates rather than through the riders proposed in the RDR cases. I would also point out  
17 that, except for AEP Ohio, no party to these proceedings has opposed the ODOD and  
18 OCC motions to consolidate.

19 **Q. Did the Staff address this issue in the Staff Report?**

20 A. No. I assume the Staff did not address this issue because it was not raised in the filed  
21 applications and because the Commission had not acted on the ODOD and OCC motions  
22 to consolidate at the time the Staff Report was issued. In view of these circumstances,

1 ODOD's objection to the Staff's failure to adjust test-year expenses to reflect the impact  
 2 of ODOD's new rule is not intended as a criticism of the Staff. Rather, this objection was  
 3 filed to preserve the Commission's opportunity to find that the PIPP-related bad debt  
 4 expense created by the new rule should be recovered through base rates and to permit the  
 5 introduction of evidence necessary to include PIPP uncollectible expense in the  
 6 allowance for uncollectible expense approved in this case.

7 **Q. What adjustments to test-year uncollectible expense does ODOD propose to account**  
 8 **for the impact of the PIPP uncollectible expense generated by new ODOD rule?**

9 A. ODOD proposes an increase in uncollectible expense of \$751,025.14 for CSP and an  
 10 increase of \$927,745.43 for OPC.

11 **Q. How did you calculate your proposed adjustments?**

12 A. I asked AEP Ohio to provide the net uncollectible expense associated with defaults on  
 13 PIPP installment payments for the months for which actual information is now available.  
 14 In response to my request, AEP Ohio provided the data displayed on the following table.

MONTH	CSP	OPC	TOTAL
February 2011	\$ 108.13	\$ 131.20	\$ 239.33
March 2011	\$ 14,120.39	\$ 17,679.46	\$ 31,799.85
April 2011	\$ 28,966.92	\$ 32,585.78	\$ 61,522.70
May 2011	\$ 37,438.92	\$ 40,176.81	\$ 77,615.73
June 2011	\$ 57,470.15	\$ 65,289.41	\$ 122,759.56
July 2011	\$ 71,748.46	\$ 105,143.05	\$ 176,891.51
August 2011	\$ 112,886.35	\$ 116,035.46	\$ 228,921.81
September 2011	\$ 126,571.51	\$ 116,492.92	\$ 243,064.43

1 **Q. Why did you ask AEP Ohio to provide the information with respect to the PIPP**  
2 **uncollectible expense charge-offs on a net basis?**

3 A. The net numbers reflect the offset to uncollectible expense for payments by customers  
4 after their accounts were closed. Except for reconnections subject to the Commission's  
5 winter reconnection order, income-eligible customers that wish to be reinstated must pay  
6 off the PIPP installment payment balance they owed prior to being dropped from the  
7 program. A substantial number of PIPP customers do return, so these revenues must be  
8 netted against uncollectible expense.

9 **Q. If the new rule was implemented November 1, 2010, why is there no PIPP bad debt**  
10 **write-off data for November and December 2010 and January 2011?**

11 A. Prior to the rule change, AEP Ohio was reimbursed from the USF for PIPP installment  
12 payments, so PIPP customer defaults prior to the rule change did not generate any  
13 uncollectible expense. After November 1, 2010, AEP Ohio was at risk for the unpaid  
14 PIPP installments of defaulting customers. However, there is a three-month accounting  
15 lag between the closing of an account and the time the unpaid account balance of a  
16 defaulting customer is written off as bad debt. Thus, the bad debt expense generated by  
17 the implementation of the new rule did not begin to hit the AEP Ohio books until  
18 February 2011.

19 **Q. Why do the PIPP installment payment write-offs continue to increase month-to-**  
20 **month over the period shown on the table?**

21 A. This is primarily a function of the pattern of disconnections of PIPP customers for  
22 nonpayment over the months shown. As I indicated, there is basically a three-month lag

1 between the activity and the write-off, which means that the February write-offs relate to  
2 the delinquent installment payment balances of accounts that were closed in October,  
3 March write-offs relate to accounts closed in November, and so on. Due to constraints on  
4 disconnection during the heating season, including the additional 10-day notice  
5 requirement imposed by the Commission and AEP Ohio's policy of not disconnecting  
6 customers when temperatures are below 25 degrees, there are far fewer disconnections in  
7 the winter months than in the spring. Disconnection activity ramps up as the weather gets  
8 warmer, which, when coupled with the accounting lag, means that, the monthly charge-  
9 offs continue to increase as we move into the summer months. Thus, as one would  
10 expect, there is a jump in PIPP installment payment write-offs in June and July  
11 (reflecting March and April activity), with the write-offs generally leveling off in August  
12 and September.

13 **Q. You characterized this seasonal effect as being primarily responsible for month-to-**  
14 **month increases in the PIPP installment payment write-offs shown in the table. Are**  
15 **there other factors that may have contributed to these increases?**

16 A. Yes. Growth in PIPP enrollment may have played a minor role (*i.e.*, the more customers,  
17 the greater potential for default).

18 **Q. How did you utilize the PIPP installment payment write-off data provided by AEP**  
19 **Ohio in calculating the adjustment to test-year uncollectible expense proposed by**  
20 **ODOD?**

21 A. I used the known, actual PIPP installment payment write-off amounts for CSP and OPC  
22 for the test-year months of March, April, and May 2011, and the known, actual write-off

1 amounts for June, July, August, and September 2011 as a surrogate for the corresponding  
2 2010 months of the test year where there were no write-offs. Summing these known  
3 monthly amounts produced seven-month actual net totals of \$449,202.70 for CSP and  
4 \$493,402.89 for OPC.

5 **Q. Why did you omit the actual write-offs from February 2011 in making this**  
6 **calculation?**

7 A. I assume that the minor amounts shown for February 2011 related to two accounts that  
8 were closed on the October-November 2010 cusp of the effective date of the new rule.  
9 Thus, use of the February figures would not produce a representative result for  
10 ratemaking purposes.

11 **Q. How did you establish the PIPP write-off amounts for the five remaining months of**  
12 **the test year (October 2010 through February 2011) for which relevant, actual PIPP**  
13 **installment write-off data was not available?**

14 A. As shown in their 2011 Electric PIPP Reports to the Commission, the actual average  
15 monthly PIPP installments billed by CSP and OPC to their PIPP customers during May  
16 2011, the final month of the test year, were \$52.13 and \$56.56, respectively. To reflect  
17 the fact that a second monthly installment becomes due before a defaulting customer can  
18 actually be disconnected for nonpayment, I doubled these amounts to produce an average  
19 per-customer write-off balance of \$102.26 for CSP and \$113.12 for OPC. I believe this  
20 is a reasonable approach for determining the average per-customer write-off balance  
21 because it reflects ODOD's expectation that customers that default on their PIPP

1 installment payments will be disconnected as promptly as the Commission's  
2 disconnection rules permit.

3 **Q. Doubling the average monthly PIPP installment to produce the average per-**  
4 **customer write-off balance assumes that the average monthly PIPP installment is**  
5 **the same each month. Is that the case?**

6 A. No. The average monthly PIPP bill is not the same each month, but the range is very  
7 narrow. I believe doubling the May 2011 numbers, which happened to be at the high end  
8 of the range of the 2011 monthly averages for both CSP and OPC, is a reasonable  
9 approach in this context.

10 **Q. What was the next step in your calculation?**

11 A. As I indicated, there is a three-month lag between the underlying activity and the time the  
12 unpaid PIPP installments are charged off as uncollectible. Thus, to normalize gross PIPP  
13 bad debt write-offs for a specific month of the test-year in which no PIPP installment  
14 payment write-offs actually occurred, one needs to look at the disconnection activity in  
15 the relevant earlier month. However, that would mean using disconnection data for  
16 months that predated the ODOD rule change. So, instead of using July 2010  
17 disconnections to determine the October 2010 gross write-off amounts and so forth, I  
18 used the actual PIPP disconnection data from the corresponding months of 2011 for  
19 which data was available, as displayed in the following table. Because the actual  
20 disconnection data for September and October 2011 is not yet available, I used the  
21 September and October 2010 numbers. Once this data becomes available, it would be  
22 logically consistent to substitute those figures for the September and October 2010



1 numbers. However, I believe the use of the data shown in the table recognizes the  
 2 seasonal pattern of disconnections and, thus, will produce a representative result.

CSP			OPC		
Test-Year Month	No. of PIPP Disconnections		Test-Year Month	No. of PIPP Disconnections	
October 2010	June 2011	812	October 2010	June 2011	903
November 2010	July 2011	644	November 2010	July 2011	840
December 2010	August 2011	726	December 2010	August 2011	1,057
January 2011	September 2010	1,044	January 2011	September 2010	1,362
February 2011	October 2010	1,174	February 2011	October 2010	1,562

3 Summing the monthly totals produces an indicated 4,400 disconnections for CSP and an  
 4 indicated 5,724 disconnections for OPC during the five-test year months for which the  
 5 PIPP bad debt write-offs must be estimated.

6 **Q. How did you determine the gross PIPP uncollectible expense write-offs for this five-**  
 7 **month period?**

8 A. I multiplied the average per-customer write-off balances for CSP and OPC by the number  
 9 of indicated disconnections. This produced gross PIPP-related bad debt write-offs of  
 10 \$449,944.00 for CSP ( $\$102.26 \times 4,400 = \$449,944.00$ ) and \$647,498.88 for OPC  
 11 ( $\$113.12 \times 5,742 = \$647,498.88$ ).

12 **Q. How did you convert the normalized gross write-off amounts to the net amounts you**  
 13 **recommend for inclusion in the allowance for uncollectible expense in this case?**

14 A. In response to an OCC discovery request in the RDR cases, AEP Ohio indicated that  
 15 32.92 percent of disconnected PIPP customers are reinstated, and used that percentage in

1 developing its estimate of the net impact to the new ODOD rule on its uncollectible  
2 expense. I applied this same percentage to the normalized gross write-offs for the months  
3 in questions to arrive at the net write-off amounts. This calculation produced net PIPP-  
4 related uncollectible expense for the five-month period of \$301,822.44 for CSP  
5 ( $\$449,944.00 \times (1 - 0.3292) = \$301,822.44$ ) and \$434,342.55 for OPC ( $\$647,498.88 \times$   
6  $(1 - 0.3292) = \$434,342.55$ ).

7 **Q. What adjustment to test-year uncollectible expense do you recommend to recognize**  
8 **the annual impact of the PIPP uncollectible expense created by the enactment of**  
9 **new Rule 122:5-3-04(B)(2), OAC?**

10 A. Combining the estimated totals for the seven months for which I used actual data with the  
11 estimated totals for the five months for which actual data is not available produces a  
12 recommended adjustment of \$751,025.14 for CSP ( $\$449,202.70 + 301,822.44 =$   
13  $\$751,025.14$ ) and \$927,745.43 for OPC ( $\$493,402.88 + \$434,342.55 = \$927,745.43$ ). I  
14 recommend that the Commission adjust the test-year uncollectible expense of the  
15 applicants by these amounts. If the proposed merger is approved, the total AEP Ohio  
16 adjustment would be the \$1,678,779.57.

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

18 A. Yes. However, I reserve the right to submit rebuttal testimony.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing has been served upon the following parties by first class mail, postage prepaid, and/or electronic mail this 24th day of October 2011.



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