BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the Ohio Development Services Agency for an Order Approving Adjustments to the Universal Service Fund Riders of Jurisdictional Ohio Electric Distribution Utilities.	)))))	Case No. 21-659-EL-USF

APPLICATION

The Ohio Department of Development (“Applicant” or “Development”), by its Director, Lydia L. Mihalik, hereby petitions the Public Utilities Commission of Ohio, pursuant to Section 4928.52(B), Revised Code, for an order approving adjustments to the Universal Service Fund ("USF") riders of all jurisdictional Ohio electric distribution utilities (“EDUs”). In support of its application, Development states as follows:

1. Under the legislative scheme embodied in SB 3, the 1999 legislation that restructured Ohio's electric utility industry and transferred administration of the electric percentage of income payment plan ("PIPP") program to Development, the USF riders replaced the EDUs' existing PIPP riders. The USF riders were to be calculated so as to generate the same level of revenue as the PIPP riders they replaced,[1] plus an amount equal to the level of funding for low-income customer energy efficiency programs reflected in the electric rates in effect on the effective date of the statute,[2] plus the amount necessary to pay the administrative costs associated with the

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[1] *See* Section 4928.52(A)(1), Revised Code.

[2] *See* Section 4928.52(A)(2), Revised Code.

low-income customer assistance programs and the consumer education program created by Section 4928.56, Revised Code.[3]

2. Pursuant to Section 4928.51(A), Revised Code, all USF rider revenues collected by the EDUs are remitted to Development for deposit in the state treasury's USF. Development then makes disbursements from the USF to fund the low-income customer assistance programs (including PIPP and the low-income customer energy efficiency programs) and the consumer education program, and to pay their related administrative costs.

3. Section 4928.52(B), Revised Code, provides that, if Development, after consultation with the Public Benefits Advisory Board ("PBAB"), determines that the revenues in the USF, together with revenues from federal and other sources of funding,[4] will be insufficient to cover the cost of the low-income customer assistance and consumer education programs and their related administrative costs, Development shall file a petition with the Commission for an increase in the USF rider rates. The statute further provides that, after providing reasonable notice and opportunity for hearing, the Commission may adjust the USF rider by the minimum amount necessary to generate the additional revenues required; provided, however, that the Commission may not decrease a USF rider without the approval of the Development Director, after consultation by the Director with the PBAB.

4. Unlike traditional ratemaking, where the objective is to establish rates that will provide the applicant utility with a reasonable earnings opportunity, the USF riders must actually generate sufficient revenues during the collection period to enable Development to meet its USF-

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[3] *See* Section 4928.52(A)(3), Revised Code.

[4] Section 4928.52(B), Revised Code, specifically identifies the Ohio Energy Credit Program as a funding source. However, this program was discontinued as of July 1, 2003.

related statutory and contractual obligations on an ongoing basis. In recognition of this fact, the stipulations adopted by the Commission in all prior USF rider rate adjustment proceedings have required that Development file a Section 4928.52(B), Revised Code, application with the Commission each year, proposing such adjustments to the USF rider rates as may be necessary to assure, to the extent possible, that each EDU's rider will generate its associated revenue requirement — but not more than its associated revenue requirement—during the annual collection period following Commission approval of such adjustments.

5. By its opinion and order of December 16, 2020, in Case No. 20-1103-EL-USF, this Commission granted Development's 2020 application for approval of adjustments to the USF riders of all Ohio EDUs based on its acceptance of a stipulation and recommendation submitted jointly by parties to that proceeding. The new USF riders replaced the USF riders approved by the Commission in Case No. 19-1270-EL-USF, and became effective on a bills-rendered basis with the January 2021 EDU billing cycles.

6. The Commission's opinion and order of December 16, 2020 in Case No. 20-1103-EL-USF provided for the continuation of the notice of intent ("NOI") process first approved by the Commission in Case No. 04-1616-EL-UNC. Under this process, Development was required to make a preliminary filing by May 31 setting out the methodology it would employ in developing the USF rider revenue requirements and rate design for its subsequent annual USF rider adjustment application. The purpose of this procedure is to permit the Commission to resolve any issues relating to methodology prior to the preparation and filing of the application itself, so as to limit the number of potential issues in the second phase of the case and thereby permit the Commission to act on the application in time for the new USF rider rates to take effect on January 1 of the following year. Development filed its NOI in this case on June 1, 2021, considering that May 31,

2021 was a holiday. The Commission, consistent with the terms of a stipulation jointly submitted by a majority of the parties to the proceeding, approved the methodology proposed by Development in the NOI by its opinion and order of October 6, 2021 (the "*NOI Order*").

7. Based on the methodology approved in the NOI Order as described below, Development has determined that, on an aggregated basis, the 2022 revenue requirement will be more than the 2021 revenue requirement, by some $46,738,037, required to fulfill the objectives identified in Section 4928.52(A), Revised Code, during the 2022 collection period. On an electric distribution utility ("EDU") specific basis, Development's analysis shows that the 2022 revenue requirement of all EDUs (AEP Ohio ("OP"), Dayton Power and Light Company, now known as AES Ohio ("AES"), Duke Energy Ohio ("Duke"), The Cleveland Electric Illuminating Company ("CEI"), Ohio Edison Company ("OE"), and The Toledo Edison Company ("TE")) would increase over their 2021 revenue requirement. Accordingly, Development, having consulted with the PBAB, proposes that the rider rates for each EDU be increased, so as to generate the required annual revenue indicated in the following table so as to generate their respective indicated revenue targets.

Table I

	2021 Revenue Requirement	2022 Revenue Requirement	Surplus/Deficiency
OP	$60,765,801	$71,456,682	-$10,690,881
AES	$5,752,389	$7,043,534	-$1,291,145
Duke	$6,730,228	$10,048,726	-$3,318,498
CEI	$13,235,211	$21,108,646	-$7,873,435
OE	$24,180,200	$41,869,019	-$17,688,819
TE	$7,471,013	$13,346,272	-$5,875,259
Totals	$118,134,842	$164,872,879	-$46,738,037

8. As described in further detail in the written testimony of Development witness Megan Meadows filed with this application, the revenue requirement that the proposed USF riders are designed to generate consists of the elements identified below.

a. Cost of PIPP. The cost of PIPP component of the USF rider revenue requirement is intended to reflect the total cost of electricity consumed by the EDU's PIPP customers for the 12-month period January 2021 through December 2021 (the "test period"), plus pre-PIPP balances, less the monthly installment payments billed to PIPP customers, less payments made by or on behalf of PIPP customers, including agency payments, to the extent that these payments are applied to outstanding PIPP arrearages over the same period. Because actual data for September through December 2021 was not available at the time the application was prepared, information from the corresponding months of 2020 was combined with actual data from January through August of 2021 to determine the test-period cost of PIPP for each EDU as displayed in Exhibit A hereto. As explained in Development witness Meadow's written testimony, and consistent with the *NOI Order*, Development adjusted the test-period cost of PIPP to recognize the impact of Commission-approved EDU rate changes that took effect during the 2021 test period and to annualize the impact of Commission-approved EDU rate changes that will take effect in 2022. The calculations of these adjustments are shown in attached Exhibits A.1.a through A.1.d. The net impact of these adjustments is shown in Exhibit A.1. As explained in Ms. Meadow's testimony, and consistent with the *NOI Order*, the totals shown in Exhibit A.1 were then adjusted to reflect the projected increase in PIPP enrollments during the 2022 collection period. The projections are shown in attached Exhibit A.2. The cumulative effect of the foregoing adjustments is shown in the Total Adjusted Test-Period Cost of PIPP column (Column F) in Exhibit A.2.

b. Electric Partnership Program and Consumer Education Program Costs. This element of the USF rider revenue requirement reflects the cost of the low-income customer energy efficiency programs and the consumer education program, referred to collectively by Development as the "Electric Partnership Program" ("EPP"), and their associated administrative costs, which are recovered through the USF riders pursuant to Section 4928.52(A)(2) and (3), Revised Code. In the NOI, Development projected its EPP costs to be $14,946,196, but indicated it would review and amend the projection, if required, when filing this Application. Development has reviewed its projections and now proposes a $13,141,665 allowance for these items. The allowance will fully fund the program based on current costs needed. Consistent with the *NOI Order,* this component of the USF rider revenue requirement is allocated to the EDUs based on the ratio of their respective costs of PIPP to the total cost of PIPP. The results of the allocation are shown in attached Exhibit B.

c. Administrative Costs. This USF rider revenue requirement element represents an allowance for the costs Development incurs in connection with its administration of the PIPP program and is included as a revenue requirement component pursuant to Section 4928.52(A)(3), Revised Code. As explained in the testimony of Development witness Megan Meadows filed with the application, the proposed allowance for administrative costs of $4,749,241 has been determined in accordance with the standard approved by the Commission in the *NOI Order*. The requested allowance for administrative costs has been allocated to the EDUs based on the number of PIPP customer accounts as of June 2021, the test-period month exhibiting the highest PIPP customer account totals. The results of the allocation are shown in attached Exhibit C.

d. December 31, 2021 USF PIPP Account Balances. Because the USF rider rate is based on historical sales and historical PIPP enrollment patterns, the cost of PIPP component of an EDU's USF rider rate will, in actual practice, either over-recover or under-recover its associated annual revenue requirement over the collection period. Over-recovery creates a positive USF PIPP account balance for the company in question, thereby reducing the amount needed on a forward-going basis to satisfy the USF rider revenue requirement. Conversely, where under-recovery has created a negative USF PIPP account balance as of the effective date of the new riders, there will be a shortfall in the cash available to Development, which will impair its ability to make the PIPP reimbursement payments due the EDUs on a timely basis. Thus, the amount of any existing positive USF PIPP 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 USF PIPP account balance must be added to the associated revenue requirement. In this case, Development is requesting that its proposed USF riders be implemented on a bills-rendered basis effective January 1, 2022. Accordingly, the USF rider revenue requirement of each EDU has been adjusted by the amount of the EDU's projected December 31, 2021 USF PIPP account balance so as to synchronize the new riders with the EDU's USF PIPP account balance as of their effective date. This conforms to the methodology approved by the Commission in the *NOI Order*. The adjusted projected December 31, 2021 USF PIPP account balance for each EDU is shown in Exhibit H. Additionally, In case number 1:21-cr-86 for the United States District Court Southern District of Ohio Western Division, FirstEnergy Corporation was required to pay $115,000,000 to Development's "Percentage of Income Payment Plan Plus program for the benefit of Ohio electric-utility customers". The $115,000,000.00 was included in the account balance calculation and therefore reduced the overall revenue requirement by said amount.

e. Reserve. PIPP-related cash flows can fluctuate significantly throughout the year, due, in large measure, to the weather-sensitive nature of electricity sales and PIPP enrollment patterns. As shown on the test-period graph attached hereto as Exhibit E, the month-to-month cash flow fluctuations had, in the past, resulted in negative USF PIPP account balances, which mean that, in those months, Development had insufficient cash to satisfy its reimbursement obligations to the EDUs on a timely basis. To address this problem, Development traditionally has included an allowance to create a cash reserve as an element of the USF rider revenue requirement, based upon each EDU's largest monthly deficit during the test period. In the NOI approved in Case No. 16-1223-EL-USF and subsequent cases, the PUCO approved a modification to the reserve calculation to allow more flexibility. The modification permitted consideration of the highest monthly deficit during the test period for the EDUs in the aggregate, because the funds are deposited in one USF account. The modification also permitted consideration of the aggregate projected year end account balance to determine whether a reserve allowance is needed. Development considered the projected aggregate account balance of $123,110,882, as shown in Exhibit H. Each EDU's largest monthly deficit occurred in August, making the sum of the individual highest monthly reserves the same as the aggregate amount, $39,496,476. Development adopted the full reserve amount, and did not reduce it by the projected account balance, considering the potential effects of the Special Reconnect Order and the ongoing pandemic. The reserve component is $39,496,476, as set forth in attached Exhibit F.

f. Allowance for Undercollection. This component of the USF rider revenue requirement is an adjustment to recognize that, due to the difference between amounts billed through the USF rider and the amounts actually collected from EDU customers, the rider will not generate the target revenues. In accordance with the methodology approved in the *NOI Order*, the allowance for undercollection for each company is based on the collection experience of that company. The allowance for undercollection for each EDU is shown in attached Exhibit G.

g. PIPP Plus Program Audit Costs. In the NOI Application, Development recognized that the Commission has permitted audits[5] to be conducted of each EDU's PIPP-related accounting and reporting to assure that the Development-EDU interface was functioning in accordance with Development's expectations and to 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.

In the NOI in this proceeding, Development proposed an allowance of $99,000 to conduct the similar audits of AEP, DP&L, and Duke. Based on the actual costs for the 2021 agreed upon procedures, Development estimates the cost to be $69,000. Each EDU (AEP, DP&L, and Duke) will be charged based on a fixed cost. The allocation of this cost to the utilities is shown in Exhibit D.

[5] 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.

h. Aggregation of PIPP Plus Customers. Pursuant to Section 4928.544(B) of the Ohio Revised Code, the reimbursement of the Commission's costs incurred for aggregation are administrative costs of the program and will be included in the Administrative Costs set forth in paragraph 8.c.

9. A summary schedule showing the USF rider component costs by EDU is attached as Exhibit I. Development proposes to recover the annual USF rider revenue requirement for each EDU through a USF rider that incorporates the same two-step declining block rate design approved by the Commission in all prior USF rider rate adjustment cases and the *NOI Order* in this proceeding. The first block of the rate applies to all monthly consumption up to and including 833,000 Kwh. The second rate block applies to all consumption above 833,000 Kwh per month. For each EDU, the rate per Kwh for the second block is set at the lower of the 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 is set at the level necessary to produce the remainder of the EDU's annual USF rider revenue requirement. Thus, if 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, a calculation shown in Exhibit J, the rate for both consumption blocks would be the same. As discussed in the testimony of Development witness Meadows, in this case, the October 1999 PIPP charge cap has been triggered for each of the EDUs, except AES. Thus, all the new USF rider rates proposed herein have the declining block feature for all EDUs, except AES. The following table compares the resulting proposed USF riders for each EDU with the EDU's current USF rider.

Table II

Declining Block Riders				
	Current 2021 USF Rider		Proposed 2022 USF Rider	
	First 833,000 Kwh	Above 833,000 Kwh	First 833,000 Kwh	Above 833,000 Kwh
OP	$0.0018471	$0.0001756	$0.0021502	$0.0001756
AES	$0.0004213	$0.0004213	$0.0005134	$0.0005134
Duke	$0.0003477	$0.0003477	$0.0005271	$0.0004690
CEI	$0.0008122	$0.0005680	$0.0013945	$0.0005680
OhEd	$0.0010744	$0.0010461	$0.0019748	$0.0010461
TolEd	$0.0008607	$0.0005610	$0.0018718	$0.0005610

10. Consistent with Section 4928.52(B), Revised Code, the proposed USF rider rates set forth above for all EDUs represent the minimum rates necessary to satisfy their respective USF rider revenue responsibilities. If the application is granted, Development will consent to the USF rider rate decreases for each EDU, as required by 4928.52(B), Revised Code.

11. In calculating the USF rider revenue requirement, Development has relied on certain information reported by the EDUs. Although Development believes this information to be reliable, Development has not performed an audit to verify the accuracy of this information. If any party questions or wishes to challenge the accuracy of this information, Development requests that the Commission require such party to direct its inquiries to the EDU in question, either informally or through formal discovery.

12. The adjustments to the USF riders proposed in this application are based on the most recent information available to Development at the time the application was prepared and includes actual data for the calendar 2021 test period through the month of August 2021. In

previous Development USF rider rate adjustment applications, Development has reserved the right to amend its application by updating its test-period calculations to incorporate additional actual data as it became available. Thus, Development again reserves the right to amend its application to incorporate additional actual test-period data that becomes available subsequent to the preparation of this initial Application.

13. Development requests that, as a part of its order in this proceeding, the Commission require that Development file its 2022 USF rider rate adjustment application no later than October 31, 2022 and provide that the NOI procedure again be used in connection with the 2022 application.

WHEREFORE, Development respectfully requests that the Commission, after providing such notice as it deems reasonable, affording interested parties the opportunity to be heard, and conducting a hearing, if a hearing is deemed to be required, issue an order (1) finding that USF rider rate adjustments proposed in the application represent the minimum adjustments necessary to provide the revenues necessary to satisfy the respective USF rider revenue requirements; (2) granting the application; and (3) directing the EDU's to incorporate the new USF rider rates approved herein in their filed tariffs, to be effective January 1, 2022 on a bills-rendered basis.

Respectively submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Application* has been served upon the following parties by electronic mail this 29th day of October 2021.

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