

**Eastern Natural Gas Company
Pike Natural Gas Company
Uncollectible Expense Rider Audits**

This was Staff's second audit of Pike Natural Gas Company (Pike) and Eastern Natural Gas Company (Eastern) (or Companies) Uncollectible Expense Rider (UEX). Pike and Eastern started their deferral of uncollectible expenses in 2004 with Commission approval in Case Nos. 04-1339-GA-UEX and 04-1619-GA-UEX. Staff's initial audit captured the years 2004 through 2006. In this audit Staff examined calendar years 2007 and 2008.

Staff began its audit with the verification of the Companies' monthly "Bad Debt Written Off" (monthly write-offs) as filed by Eastern in Case Nos. 08-561-GA-UEX and 09-367-GA-UEX and by Pike in Case Nos. 08-562-GA-UEX and 09-368-GA-UEX. These monthly write-offs were traced to their source documents - Account Write-off Assessment Journals (AWAJ). These AWAJ are run the first week of each month and contain customer account balances that have remained unpaid for more than 60 days. The AWAJ has an account titled "Adjustment to Write-off" (AWO) which nets out increases (customer account write-offs) against decreases (payments received from collection agencies and customers) on a monthly basis to arrive at the monthly write-off amount. Staff compared the AWO monthly write-off amount to the write-offs filed by the Companies in the above case numbers and found no differences.

Staff's next step was to select four customers per year (2007 - 2008) whose accounts had been placed in the AWAJ. Staff requested the customer's payment history for the year(s) in which their account appeared in the AWAJ. Staff traced the customer's payment history to the AWAJ to ensure that the customer's account balance was properly recorded in the AWAJ. If subsequent payments were made by the customer, Staff verified that the Company properly credited the AWAJ, which resulted in a decrease to the AWO monthly balance. Staff found in its samples that when a customer paid on their account, the Company properly credited the customer's account balance and decreased the AWO.

Upon closer review Staff found when comparing the customers' payment histories to the AWAJ, instances where a customer's unpaid balance would appear on the AWAJ, but were not accounts "associated with disconnected or other final accounts" as is the language in Case No. 03-1127-GA-UNC. Staff found that the customer account balances that were reflected in the AWAJ were accounts on which no payment had been made in the last 60 days and therefore had a high probability of being uncollectible. In its random sampling of accounts Staff found that some of the AWAJ accounts were paid partially or in full and were subsequently removed from the AWAJ. Staff believes that this could increase the UEX monthly balance in the future if carrying charges are applied to these balances. Currently, Pike and Eastern do not apply carrying charges to their UEX balances.

In the prior audit it was noted that the Pike and Eastern utilized collection agencies to collect on customers' accounts that had been written-off, but the Companies were not placing the collection agencies fees into their respective UEX riders for recovery. Staff and the Companies agreed that collection agency fees should be recovered through their respective UEX riders. In this audit, Staff examined the invoices from the collection agencies and the amounts placed for recovery through the Companies UEX riders and found small differences in both Pike and Eastern's collection fees. These collection fees were paid throughout the audit period but included for recovery as part of the write-off amounts only one time, which was in the last month of the audit period (December 2008). Staff also notes that Eastern placed its collection fees into the December 2008 write-off amounts as a negative amount rather than a positive amount as it should have been. Staff has corrected this in its calculations. Staff has made these corrections as shown on Table 1 – Eastern and Table 2 – Pike 2008 Annual Balance Reconciliations.

Recommendations

Staff recommends that for Pike and Eastern 2010 UEX applications, the Companies use the December 2008 ending balances as their respective beginning balances for 2009, as shown on Staff's Tables 1 and 2.

TABLE 1

[illegible]

**Pike Natural Gas Company
Case No. 09-214-GA-GCR
Bad Debt Rider - Uncollectible Expense Rider Audit
Annual Balance Reconciliation - 2008**

[illegible]