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A report by the Staff of the Public Utilities Commission of Ohio

Eastern Natural Gas Company

Case No. 17-407-GA-PIP

Pike Natural Gas Company

Case No. 17-414-GA-PIP

PUCO

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December 15, 2017

Audit of the Percentage of Income Payment Plan
for the period January 2015 through December 2016

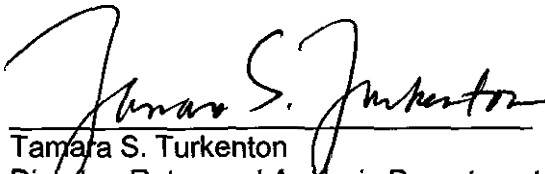
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Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audits of the Eastern Natural Gas Company (Eastern) and Pike Natural Gas Company (Pike) (collectively "Companies") Percentage of Income Payment Plan (PIPP) rider rates for January 1, 2015 through December 31, 2016. The Staff audited the material as set forth in the Commission Entry in Case No. 17-407-GA-PIP and 17-414-GA-PIP.

Our audits have revealed certain findings, as discussed in this audit report, which should be addressed in this proceeding. The Staff notes that at the time of preparing this report, unless otherwise noted, the Companies accurately calculated their percentage of income payment plan rider rates for the time period discussed in this report. The Staff has performed investigations into these specific areas and respectfully submits its findings and recommendations.


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Public Utilities Commission of Ohio


David Lipthratt
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Enclosure
cc: Parties of Record

Commission Entry

On February 1, 2017, the Commission initiated the financial audits of Eastern Natural Gas Company and Pike Natural Gas Company PIPP. These audits examined PIPP rates that were in effect for the calendar years 2015 and 2016 (audit period). Staff has conducted its audits of the Companies' PIPP arrearages and recoveries and presents its findings and recommendations in this report.

Background

On December 2, 1993, in Case No. 88-1115-GA-PIP, the Commission adopted a Stipulation and Recommendation (Stipulation) between regulated gas and electric companies and interested parties. The Stipulation was applicable to gas, electric and combination companies with PIPP riders, and contained provisions associated with the accounting for the PIPP program. One of those provisions allowed for the companies to initiate not more than annually a proceeding before the Commission to adjust their PIPP riders to "true-up" the recoveries with the costs of offering the program.

In 2009, the Commission initiated an investigation of the large natural gas companies to evaluate whether their collections practices and policies were effective in minimizing uncollectible expenses (UEX). The investigation also sought to establish certain benchmarks as well as the development of best practices to be employed by natural gas companies to minimize uncollectible expenses. A report was filed on May 3, 2010, that presented findings and recommendations to enhance utility companies' collection practices for UEX and PIPP. As a result, the Commission ordered that natural gas companies with UEX and PIPP riders file annual applications that reflect the level of arrearage (write-offs) and collections.

On June 23, 2010, in Case No. 08-723-AU-ORD, the Companies were granted a waiver by the Commission to adopt an alternative PIPP forgiveness program and an exemption from the graduate PIPP rules. The Companies alternative program provided an arrearage credit to a PIPP customer who made at least nine timely PIPP payments over a 12-month period from August through July. The program allowed an arrearage credit to a PIPP customer making 75 percent of the minimum required PIPP payments. It also afforded PIPP customers the opportunity to eliminate their accumulated arrearage in one year.

In order to participate in this program, the Companies PIPP customers shall (a) be active participants in the PIPP program for the period August 1 to July 31; (b) make at least nine timely payments of at least the required income-based payment in the 12-month period; and (c) make payments totaling at least 75 percent of their annual obligation amount. The Companies' forgiveness calculations recognized that, as the customers made more on time and in full payments, the percentage of arrearage forgiveness increased. The minimum level is 9 out of 12 payments resulting in a 75% crediting of arrearages. The maximum forgiveness occurs when a customer makes 12 timely installment payments, resulting in 100% of the arrearage being forgiven.

Eastern and Pike did not file applications to adjust their PIPP rates in 2016 and 2017 but instead kept in effect the rates established in 15-407-GA-PIP and 15-414-GA-PIP. The rates established in the 2015 cases were \$0.00 for Eastern and \$(0.0823) per Mcf for Pike.

Staff Review

Staff's audits were designed to ensure the deferred balances on the Companies' ledgers included the correct ending balances, which would reflect all appropriate write-offs and payments. On August 31, 2017, Staff initiated its audit of the Companies by issuing data requests (DRs) seeking documentation of the monthly write-offs, collections through the rider, and account balances for 2015 and 2016. The Companies provided, in response to the DRs, billing registers for 2015 and 2016, queries of active customer PIPP payments from January 2015 to December 2016, Excel spreadsheets detailing monthly activity, arrearage forgiveness worksheets for each company and randomly selected PIPP customers' billing histories. The documents were made available through emails and during Staff's on-site visit.

Staff first examined the Companies' billing registers in which queries of PIPP customers were run monthly, by company, to identify a customer's consumption, billed amount and installment amount. Each month, the Companies summed the PIPP customers' billed amounts and subtracted from that the sum of the installment amounts. The net was then recorded as a write-off on the respective company's work sheets. These monthly write-offs represented the amount that the Companies sought to recover through their PIPP riders as shown on Tables 1 and 2 in column "a".

In review of the monthly billing registers, Staff found that the customers' billed amounts were properly posted to customers' account balances. The billing registers also contained the customers' installment payment amount; however, customers did not consistently pay these amounts. This resulted in the Companies over- and understating the payments received from PIPP customers and over and understating their write-offs. Staff's calculation of the PIPP ending balances did not include installment payment amounts, but rather actual payments.

Through queries of the billing system, the Companies were able to provide active customers' monthly payments and HEAP funds from October 2015 through December 2016. However, prior to October 2015, these queries, when run in response to Staff's request, omitted any customer whose bills were finalized or became inactive before the queries were run. In order to determine the amount paid by final billed customers, Staff requested billing histories of all final billed accounts from January 2015 through September 2015. Staff examined each customer's billing history and summed their payments.

During its review, Staff found that the Companies were assessing a hundred dollar fee to customers they believed would re-establish service at a future date. The hundred dollar fees were also included as part of the monthly write-off amounts, which were intended to recognize the

deposit amount that a customer would need to pay to reinitiate service. Staff believes that deposits should not be included in the monthly write-off amounts for no services were provided by these Companies. Staff examined each final billed account and removed these deposit fees from the Companies' monthly write-offs.

In order to determine the amount paid by inactive PIPP customers, Staff received queries of all of Eastern's and Pike's customers' payments from January 2015 to September 2015. Staff searched these larger queries for inactive PIPP accounts and summed all payments made by these customers during the nine months.

Staff then examined the recoveries through the Companies' respective PIPP riders by reviewing customer billings to determine when PIPP riders went into effect. Staff also verified monthly sales volumes during the course of each Company's gas cost recovery (GCR) audit, upon which the Companies' rider rates were applied. Staff found no differences in sales volumes for the Companies.

From the customer billing registers, Staff randomly selected customers from each Company. Using the customers' billing histories, Staff compared the monthly billed amount to those contained in the customer billing registers. Staff found no discrepancies.

The Companies manually tracked the number of customer payments using an Excel spreadsheet. Staff reviewed the Companies spreadsheet for purposes of determining which customers were eligible for arrearage forgiveness credits.

If, as of August, the customer had made nine or more installment payments, the customer's name would be placed on a list in order for the billing department to calculate a forgiveness credit, with the credits typically appearing on October's billings.

Staff initiated its review by comparing the customers' billing histories to the list of customers eligible for forgiveness credits. Staff then examined the customer's billing history to determine the number of payments made, if the customer was eligible for a credit, and the amount of the credit. Staff noted that several customers made more than nine payments but were inconsistent in the amount of their payments. Staff also found that several customers that were listed as eligible to receive forgiveness credits did not receive credits because their account balances were below zero when the credit was calculated.

Staff was able to replicate the credits calculated by the Companies by utilizing September's ending balance times the percentage attributable to the number of payments that the customer had made. Staff's credits matched the credits calculated by the Companies' and applied to customers' account balances, thus Staff found that Companies have appropriately implemented arrearage forgiveness programs.

Conclusions

Staff found that for the audit period, the Staff's calculation of the write-off's differed from the Company's recorded write-offs due to Staff excluding installment payments and recognizing actual installment and HEAP funds (column "b" on Tables 3 and 4); whereas, the Companies' column "b" represents the sum of the amounts billed to PIPP customers, their installments payments, plus the prior months balance. Staff believes, for the period of January 2015 to December 2016, that the amounts reflected in columns "a" and "b" on Tables 3 and 4 capture the correct balance of write-offs and payments made. Staff also believes that the amounts shown in the columns "f" represents more accurately the level of over- recovery for each Company's PIPP program.

Recommendations

Staff recommends that the Companies restate their January 1, 2017, beginning balances to the December 31, 2016 ending balances as reflected in column "f" on Tables 3 and 4 and shown below:

Eastern	\$(70,185)
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Pike	\$(187,644)
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Furthermore, Staff recommends that the Companies use the total monthly PIPP billed amount as the amount to include in column "a", Tables 3 and 4. Staff also recommends that the Companies run monthly queries of PIPP customers' payments and subtract these amounts as shown in column "b" to arrive at the balance to increase or decrease shown in column "c", Tables 3 and 4.

Table 1**Eastern Natural Gas Company****Company's PIPP Calculation**

	To deferred 186-000 (a)	186-000 Balance (b) = (a) + Prev Bal	Rider recovery 186-000 (c)	186-000 Balance (d) = (c) + Prev Bal	Deferred PIPP Balance (e) = (b) + (d)
Jan-15	\$33,070	\$1,994,439	\$0	-\$2,137,659	-\$143,220
Feb-15	\$23,274	\$2,017,713	\$0	-\$2,137,659	-\$119,946
Mar-15	\$22,727	\$2,040,440	\$0	-\$2,137,659	-\$97,219
Apr-15	\$10,312	\$2,050,753	\$0	-\$2,137,659	-\$86,907
May-15	-\$621	\$2,050,132	\$0	-\$2,137,659	-\$87,528
Jun-15	-\$4,528	\$2,045,604	\$0	-\$2,137,659	-\$92,056
Jul-15	-\$6,811	\$2,038,792	\$0	-\$2,137,659	-\$98,867
Aug-15	-\$7,442	\$2,031,350	\$0	-\$2,137,659	-\$106,309
Sep-15	\$8,518	\$2,039,868	\$0	-\$2,137,659	-\$97,791
Oct-15	-\$5,591	\$2,034,277	\$0	-\$2,137,659	-\$103,382
Nov-15	-\$909	\$2,033,368	\$0	-\$2,137,659	-\$104,291
Dec-15	\$485	\$2,033,853	\$0	-\$2,137,659	-\$103,806
	<u>\$72,484</u>	<u>\$2,033,853</u>	<u>\$0</u>	<u>-\$2,137,659</u>	<u>-\$103,806</u>
Jan-16	\$11,316	\$2,045,169	\$0	-\$2,137,659	-\$92,490
Feb-16	\$14,162	\$2,059,331	\$0	-\$2,137,659	-\$78,328
Mar-16	\$10,464	\$2,069,795	\$0	-\$2,137,659	-\$67,865
Apr-16	\$4,513	\$2,074,308	\$0	-\$2,137,659	-\$63,351
May-16	-\$11	\$2,074,297	\$0	-\$2,137,659	-\$63,363
Jun-16	-\$4,254	\$2,070,043	\$0	-\$2,137,659	-\$67,616
Jul-16	-\$6,074	\$2,063,969	\$0	-\$2,137,659	-\$73,690
Aug-16	-\$6,160	\$2,057,809	\$0	-\$2,137,659	-\$79,850
Sep-16	\$55,232	\$2,113,042	\$0	-\$2,137,659	-\$24,618
Oct-16	-\$3,848	\$2,109,194	\$0	-\$2,137,659	-\$28,465
Nov-16	\$307	\$2,109,501	\$0	-\$2,137,659	-\$28,158
Dec-16	\$7,445	\$2,116,945	\$0	-\$2,137,659	-\$20,714
	<u>\$83,092</u>	<u>\$2,122,960</u>	<u>\$0</u>	<u>-\$2,137,659</u>	<u>-\$14,699</u>

Table 2**Pike Natural Gas Company****Company's PIPP Calculation**

	To deferred 186-000 (a)	186-000 Balance (b) = (a) + Prev Bal	Rider recovery 186-000 (c)	186-000 Balance (d) = (c) + Prev Bal	Deferred PIPP Balance (e) = (b) + (d)
Jan-15	\$111,177	\$1,837,986	\$0	-\$2,064,601	-\$226,615
Feb-15	\$13,050	\$1,851,035	\$0	-\$2,064,601	-\$213,565
Mar-15	\$26,477	\$1,877,513	\$0	-\$2,064,601	-\$187,088
Apr-15	\$6,921	\$1,884,433	\$0	-\$2,064,601	-\$180,167
May-15	-\$8,634	\$1,875,799	\$0	-\$2,064,601	-\$188,802
Jun-15	-\$10,120	\$1,865,678	\$0	-\$2,064,601	-\$198,922
Jul-15	-\$11,327	\$1,854,351	\$0	-\$2,064,601	-\$210,250
Aug-15	-\$11,921	\$1,842,430	\$0	-\$2,064,601	-\$222,171
Sep-15	\$5,389	\$1,847,818	\$0	-\$2,064,601	-\$216,782
Oct-15	-\$9,401	\$1,838,417	\$1,930	-\$2,062,671	-\$224,254
Nov-15	-\$5,001	\$1,833,417	\$4,272	-\$2,058,399	-\$224,982
Dec-15	\$86	\$1,833,503	\$5,956	-\$2,052,442	-\$218,940
	<u>\$106,694</u>	<u>\$1,833,503</u>	<u>\$12,158</u>	<u>-\$2,052,442</u>	<u>-\$218,940</u>
Jan-16	\$9,609	\$1,843,112	\$9,976	-\$2,042,466	-\$199,354
Feb-16	\$16,593	\$1,859,705	\$12,666	-\$2,029,800	-\$170,096
Mar-16	\$9,962	\$1,869,666	\$10,016	-\$2,019,784	-\$150,118
Apr-16	\$796	\$1,870,462	\$6,067	-\$2,013,718	-\$143,256
May-16	-\$4,453	\$1,866,009	\$3,056	-\$2,010,661	-\$144,652
Jun-16	-\$6,692	\$1,859,317	\$1,873	-\$2,008,788	-\$149,471
Jul-16	-\$9,278	\$1,850,039	\$1,199	-\$2,007,589	-\$157,550
Aug-16	-\$8,988	\$1,841,050	\$970	-\$2,006,619	-\$165,568
Sep-16	\$22,583	\$1,863,633	\$1,118	-\$2,005,500	-\$141,867
Oct-16	-\$7,633	\$1,856,000	\$1,681	-\$2,003,819	-\$147,819
Nov-16	-\$3,848	\$1,852,152	\$3,311	-\$2,000,508	-\$148,356
Dec-16	\$6,667	\$1,858,819	\$7,756	-\$1,992,752	-\$133,933
	<u>\$25,317</u>	<u>\$1,858,819</u>	<u>\$59,690</u>	<u>-\$1,992,752</u>	<u>-\$133,933</u>

Table 3

Eastern Natural Gas Company

Staff's PIPP Calculation

	To deferred 186-000	Actual Customer Payments and HEAP	186-000 Balance	Rider recovery 186-100	186-100 Balance	Deferred PIPP Balance
	(a)	(b)	(c) = Prev Bal plus (a) - (b)	(d)	(e) = (d) + Prev Bal	(f) = (c) + (e)
Jan-15	\$32,914		\$2,060,047	\$0	-\$2,170,352	-\$110,306
Feb-15	\$37,740		\$2,097,787	\$0	-\$2,170,352	-\$72,565
Mar-15	\$37,667		\$2,135,454	\$0	-\$2,170,352	-\$34,898
Apr-15	\$25,796		\$2,161,250	\$0	-\$2,170,352	-\$9,102
May-15	\$14,483		\$2,175,733	\$0	-\$2,170,352	\$5,381
Jun-15	\$10,559		\$2,186,292	\$0	-\$2,170,352	\$15,940
Jul-15	\$8,218		\$2,194,510	\$0	-\$2,170,352	\$24,157
Aug-15	\$7,642		\$2,202,151	\$0	-\$2,170,352	\$31,799
Sep-15	\$7,662	\$11,913	\$2,197,900	\$0	-\$2,170,352	\$27,547
Oct-15	\$9,933	\$16,416	\$2,191,416	\$0	-\$2,170,352	\$21,064
Nov-15	\$15,009	\$14,023	\$2,192,402	\$0	-\$2,170,352	\$22,050
Dec-15	\$20,823	\$82,240	\$2,130,985	\$0	-\$2,170,352	-\$39,367
	\$228,446	\$124,593	\$2,130,985	\$0	-\$2,170,352	-\$39,367
Jan-16	\$27,723	\$45,649	\$2,113,060	\$0	-\$2,170,352	-\$57,292
Feb-16	\$30,650	\$19,759	\$2,123,951	\$0	-\$2,170,352	-\$46,401
Mar-16	\$26,856	\$20,866	\$2,129,941	\$0	-\$2,170,352	-\$40,411
Apr-16	\$20,797	\$19,463	\$2,131,275	\$0	-\$2,170,352	-\$39,077
May-16	\$13,601	\$16,484	\$2,128,392	\$0	-\$2,170,352	-\$41,961
Jun-16	\$8,951	\$16,428	\$2,120,915	\$0	-\$2,170,352	-\$49,437
Jul-16	\$7,506	\$15,917	\$2,112,504	\$0	-\$2,170,352	-\$57,848
Aug-16	\$7,059	\$14,874	\$2,104,689	\$0	-\$2,170,352	-\$65,663
Sep-16	\$6,712	\$12,877	\$2,098,523	\$0	-\$2,170,352	-\$71,829
Oct-16	\$7,899	\$10,921	\$2,095,501	\$0	-\$2,170,352	-\$74,852
Nov-16	\$12,481	\$12,028	\$2,095,953	\$0	-\$2,170,352	-\$74,399
Dec-16	\$18,568	\$14,354	\$2,100,167	\$0	-\$2,170,352	-\$70,185
	\$188,802	\$219,621	\$2,100,167	\$0	-\$2,170,352	-\$70,185

Table 4

Pike Natural Gas Company

Staff's PIPP Calculation

	To deferred 186-000	Actual Customer Payments and HEAP	186-000 Balance (c) = Prev Bal plus (a) - (b)	Rider recovery 186-100	186-100 Balance (e) = (d) + Prev Balance	Deferred PIPP Balance (f) = (c) + (e)
	(a)	(b)		(d)		
Jan-15	\$45,370		\$1,900,451	\$0	-\$2,081,673	-\$181,222
Feb-15	\$42,698		\$1,943,149	\$0	-\$2,081,673	-\$138,524
Mar-15	\$53,612		\$1,996,760	\$0	-\$2,081,673	-\$84,912
Apr-15	\$31,828	\$12,385	\$2,016,203	\$0	-\$2,081,673	-\$65,469
May-15	\$15,864		\$2,032,067	\$0	-\$2,081,673	-\$49,606
Jun-15	\$12,331		\$2,044,398	\$0	-\$2,081,673	-\$37,275
Jul-15	\$9,944		\$2,054,342	\$0	-\$2,081,673	-\$27,331
Aug-15	\$7,970		\$2,062,312	\$0	-\$2,081,673	-\$19,361
Sep-15	\$9,191	\$58,944	\$2,012,559	\$0	-\$2,081,673	-\$69,113
Oct-15	\$8,966	\$18,510	\$2,003,015	\$1,930	-\$2,079,743	-\$76,728
Nov-15	\$15,649	\$18,145	\$2,000,519	\$4,272	-\$2,075,471	-\$74,951
Dec-15	\$22,015	\$143,138	\$1,879,397	\$5,956	-\$2,069,515	-\$190,118
	\$275,438	\$251,122	\$1,879,397	\$12,158	-\$2,069,515	-\$190,118
Jan-16	\$31,760	\$23,423	\$1,887,734	\$9,976	-\$2,059,539	-\$171,804
Feb-16	\$38,289	\$68,236	\$1,857,788	\$12,666	-\$2,046,873	-\$189,085
Mar-16	\$30,068	\$22,164	\$1,865,691	\$10,016	-\$2,036,857	-\$171,166
Apr-16	\$19,911	\$17,658	\$1,867,944	\$6,066	-\$2,030,791	-\$162,847
May-16	\$13,895	\$18,655	\$1,863,184	\$3,056	-\$2,027,735	-\$164,551
Jun-16	\$9,902	\$16,696	\$1,856,389	\$1,873	-\$2,025,862	-\$169,472
Jul-16	\$7,003	\$17,668	\$1,845,724	\$1,199	-\$2,024,663	-\$178,939
Aug-16	\$6,647	\$14,621	\$1,837,749	\$970	-\$2,023,693	-\$185,943
Sep-16	\$6,379	\$13,967	\$1,830,161	\$1,118	-\$2,022,574	-\$192,414
Oct-16	\$6,596	\$14,353	\$1,822,403	\$1,681	-\$2,020,894	-\$198,490
Nov-16	\$9,995	\$13,137	\$1,819,262	\$3,310	-\$2,017,584	-\$198,322
Dec-16	\$20,224	\$17,301	\$1,822,184	\$7,756	-\$2,009,828	-\$187,644
	\$200,669	\$257,882	\$1,822,184	\$59,687	-\$2,009,828	-\$187,644