



The Public Utilities  
Commission of Ohio

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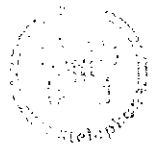
**A report by the Staff of the  
Public Utilities Commission of Ohio**

**Ohio Gas Company**  
08-212-GA-GCR  
08-597-GA-UEx

**Audit of the Uncollectible Expense  
Mechanisms for the Effective GCR Periods  
January 2005 through December 2007**

**September 19, 2008**

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Ohio Gas Company  
Uncollectible Expense Rider

In Case No. 05-1430-GA-UEX, Ohio Gas started its deferral of uncollectible expenses and established its initial Uncollectible Expense Rider (UEX). Ohio Gas' initial UEX rate was set equal to that which was contained in its base rates. Ohio Gas filed subsequent UEX revisions in Case Nos. 06-706-GA-UEX, 07-536-GA-UEX and 08-597-GA-UEX.

The starting point in determining Ohio Gas' uncollectible expenses started with its monthly write-off report that flags non-payment accounts over 90 days old. Ohio Gas uses specific criteria to determine which accounts they should send to collections. The accounts that are sent to collection are summarized on a monthly Customer Collection Report (CCR). These monthly CCRs are comprised of Percentage of Payment Plan (PIPP) and non-PIPP accounts. The PIPP accounts are separated out for recovery through the Company's PIPP rider. The remainder of the CCR balance represents the non-PIPP accounts which are recoverable through the UEX.

Staff began its audit with the verification of Ohio Gas' monthly "Bad Debts Written Off" (write offs) amounts as filed in the Company's Annual Balance Reconciliations (ABR) for the years 2005, 2006 and 2007. Staff randomly selected months from the ABR and traced the amounts to the Company's CCRs. The Staff found that in all but one month (December 2005) the CCR total less PIPP accounts matched the ABR write off amounts. The December 2005 difference was brought to Ohio Gas' attention. The Company believes the difference occurred when it changed its accounting for uncollectible expenses in December 2005.

Staff then randomly selected customers who had been placed on the CCR and requested their billing history and a copy of their final bill. Staff was able to verify their last payment, monthly balances, final balance and the length of time between the customer's final payment and when their account was placed into the CCR. Staff found all of the customers' unpaid balances matched the figures contained on the CCR. Staff also found these customers had not made a payment on their account for at least 90 days prior to their disconnection and balance being placed into the CCR.

Next Staff examined the recoveries by Ohio Gas which were labeled "Recovery – Other" (recoveries) in the ABR. Staff relied upon Ohio Gas' general ledger as its starting point to verify the recoveries. The Company's general ledger account 144.1 records all payments received by the Company for accounts that were placed into the CCR report. Staff traced all of the recoveries for 2007 to the general ledger and found that all of the amounts matched. Staff then selected a customer who had been disconnected and placed into the CCR but made a subsequent payment to their account. Staff traced the customer's payment to payments that were recorded in the Company's general ledger. Staff found no discrepancies.

Staff inquired into Ohio Gas' collection practices and found that the Company utilized the services of two external collection services, along with its internal collections. During the audit period, collectors were sent monthly copies of the Company's CCR, which contained the write offs. The collectors attempted to collect the write offs for which they received a percentage of the collections. When the collector received a payment from a customer, the payment was remitted to Ohio Gas who credited the customer's account for the full amount of their payment. Ohio Gas paid the external collector their percentage which left the Company's recoveries overstated by the percentage paid to the collector. Ohio Gas believes that when a payment is received from an external collector, the net amount of a customer's payment (customer's payment less external collection fees) should be reflected in recoveries.

### **Conclusions**

In its examination of the write offs Staff found one difference between the CCR less PIPP and the amount placed into the ABR. For December 2005, the Company filed \$96,421 as its write off. Staff found in its examination that write offs were \$94,817, a difference of \$1,604.

Staff believes that the Company should recognize its payments to external collection services through the UEX. The Company should reduce a customer's payment by the amount paid to the external collectors and record the net amount in recoveries.

Staff has reviewed the Company payment history to its external collectors and found that Ohio Gas has paid over a \$100,000 from 2005 to 2007 in fees. Absent recovery of these fees to the collection services through the UEX, Ohio Gas will under-recovered its uncollectible expenses. Without the ability to recover the payment to a collection service through the UEX, Ohio Gas would have a disincentive in utilizing external collection services and leaving substantially more of the CCR amount to be recovered through internal collections and the UEX rider.

### **Recommendations**

Staff recommends that the Company reduce its beginning balance in its next Uncollectible Expense Rider application by \$1,604 to reflect the difference in December 2005 Bad Debt Written Off amounts.

Staff recommends that Ohio Gas recover the payments it makes to external collection services by including the net amount (customer payment less collection charges) in recoveries.

Staff recommends that the Commission allow Ohio Gas to collect the fees paid to collection services for the years 2005, 2006 and 2007 in the amount of \$103,767. The \$103,767 amount would increase the Uncollectible Expense Rider's beginning balance at the time of the Company next application.

Staff notes that in Case No. 03-1127-GA-UNC, the Commission directs that the UEX mechanism be investigated 60 months after its implementation. At this time the amounts recovered by the mechanism will be examined along with any change that may have occurred in a Company's credit and collection policies. This 60 month period will end in 2008.