



The Public Utilities
Commission of Ohio

Findings and Recommendations
of the Staff of the Public Utilities
Commission of Ohio

In the Matter of the Five-Year Review
Of Natural Gas Company
Uncollectible Riders

February 05, 2009

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Case No. 08-1229-GA-COI

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Five-Year Review)
of Natural Gas Company Uncollectible)
Riders)

Case No. 08-1229-GA-COI

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Alan R. Schriber, Chairman
Ronda Hartman Fergus, Commissioner
Valerie A. Lemmie, Commissioner
Paul A. Centolella, Commissioner
Cheryl L. Roberto, Commissioner

To The Honorable Commission:

In accordance with the provisions of the Commission's December 17, 2003 Finding & Order in Case No. 03-1127-GA-UNC, the Commission's Staff has conducted its investigation in the above matter and hereby submits its findings and recommendations.

The Staff findings and recommendations are submitted for the Commission's consideration as the results of the Staff's investigation. It does not purport to reflect the views of the Commission nor should any party to said proceeding consider the Commission as bound in any manner by the representations or recommendations set forth therein.

Respectfully submitted,



Steve Puican, Co-Chief
Rates & Tariffs/Energy & Water
Utilities Department

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I. BACKGROUND

On May 7, 2003, The East Ohio Gas Company d/b/a Dominion East Ohio ("Dominion"), Columbia Gas of Ohio Inc. ("Columbia"), Vectren Energy Delivery of Ohio ("Vectren"), Northeast Ohio Natural Gas Corp. ("Northeast"), and Oxford Natural Gas Company ("Oxford"), (together "the Companies") filed a joint application with the Commission to establish a mechanism to allow more timely recovery of the Companies' respective uncollectible expenses (Case No. 03-1127-GA-UNC). The proposed mechanism would replace the then-existing method of recovering these expenses based on the test year uncollectable expense from each Companies' most recent base rate proceeding. The Companies argued that they had been experiencing volatile and high gas prices such that the uncollectable expenses embedded in base rates were no longer compensatory.

On December 17, 2003 the Commission issued a Finding and Order permitting each Company to file tariffs establishing an uncollectable expense rider in concept.¹ Each Company was directed to make a subsequent filing to establish the initial rate which was set at the amount of bad debt recovery built into current base rates. Subsequent adjustments to the rate could be made annually when the difference between the current and proposed uncollectable rider exceeded a 10 percent threshold. The Finding and Order further expressed concern that the approved adjustment mechanism could impact the diligence with which the Companies conducted collections from delinquent customers. The Commission thus directed staff to undertake an investigation 60 months from their implementation. Among other things, the investigation should:

1. Identify amounts recovered by the Companies pursuant to the mechanism;
2. Address the impact of any changes to the Companies' credit and collection policies and procedures; and,
3. Any other staff recommendations.

This report is in response to that December 17, 2003 Finding and Order in Case Number 03-1127-GA-UNC.

¹ Subsequent riders were also approved for Pike Natural Gas, Eastern Natural Gas, Orwell Natural Gas and Ohio Gas Companies.

II. AMOUNTS RECOVERED BY THE COMPANIES THROUGH THE MECHANISM

Summary Statistics

Attachment 1 to this report contains a history of each Company's rider amounts, the effective date of those rates and the uncollectible balances at the time of the adjustments. Attachment 2 to the report presents summary statistics for Dominion, Vectren, Columbia and Ohio Gas. Information from the other Companies was submitted to staff but was not included in this report due to the unavailability of certain data relied on for purposes of this review. The data for Columbia and Dominion also include an amortization of prior years' uncollectable deferrals authorized by the Commission in Case Nos. 01-3278-GA-AAM and 01-2592-GA-UNC respectively. For each of the Companies, the data shows a marked increase in incremental uncollectibles beginning in about the year 2000 which was the year natural gas prices initially began to spike significantly compared to historical levels. The Rider/Rate recoveries show an increase in the year the rider was established reflecting the initial rate (set at the amount currently in base rates) and a subsequent increase in that same year. Staff evaluated the summary statistics to attempt to gain insight into the question of whether the existence of the rider would provide a reduced incentive to the Companies to collect past due amounts from the customers that owed them. The first measure was to look at disconnections for non-payment prior to and subsequent to the establishment of the UEX rider. The numbers of disconnections for non-payment generally show an increase from the pre-rider to the post-rider period. This trend would actually be expected, however, since an account must have been disconnected in order for the unrecovered amount to be included in the rider. This would provide the Companies with sufficient incentive to pursue disconnections for non-payment. Table 1 is a summary of the disconnection history for each Company and, with the exception of Dominion, verifies that there was no decline in disconnection activities after implementation of the riders. In Dominion's case there was an initial decline that now appears to be more consistent with pre-rider levels.

Table 1

DISCONNECTIONS

	Columbia	DEO	Vectren	Ohio Gas	Northeastern	Pike	Eastern
1999	N/A	N/A	N/A	1312	N/A	N/A	N/A
2000	N/A	N/A	N/A	1547	N/A	N/A	N/A
2001	55,951	30,960	N/A	1725	N/A	N/A	N/A
2002	71,416	76,155	N/A	2021	N/A	N/A	N/A
2003	78,814	69,909	16,474	2508	3	406	432
2004	87,955 *	63,219 *	119,474 *	2778	18*	541	431
2005	86,903	47,440	20,242	3216	N/A	536	464
2006	91,206	44,073	20,611	4717*	35	466*	431*
2007	95,633	55,840	19,870	4121	96	311	482

* Year initial rider established

III. CREDIT AND COLLECTION POLICIES

The second measure the Staff evaluated was the amount of recoveries from customers subsequent to their disconnection. In its Opinion and Order in Case No. 01-1127-GA-UNC the Commission made clear that the existence of the UEX rider does not exempt customers whose arrearages are recovered through the mechanism from the obligation to pay the amounts owed. Attachment 1 shows that, as with disconnections, customer recoveries show an increase from the pre-rider to the post-rider period. Once again, this result would be expected to correspond to the increase in disconnections as customers make payment arrangements in order to be reconnected. The final measure was to examine the ratio of annual incremental uncollectibles incurred to recoveries from customers in that same year. Staff believes this ratio is the best measure available since it looks at customer collections in relation to the size of the bad debt incurred. Table 2, "Customer Collections as a Percentage of Incremental Uncollectibles", shows the results for the four largest companies.

<u>Table 2</u>				
CUSTOMER COLLECTIONS AS A PERCENTAGE OF INCREMENTAL UNCOLLECTIBLES				
	Columbia	Vectren	DEO	Ohio Gas
1999	51%	N/A	13%	22%
2000	48%	N/A	18%	17%
2001	39%	23%	10%	18%
2002	50%	20%	14%	31%
2003	44%	48%	18%	38%
2004	59%	60%	30%	43%
2005	61%	58%	40%	33%
2006	55%	50%	18%	40%
2007	65%	60%	28%	51%

For all four Companies, the post-rider period shows an increase in this ratio over the pre-rider period indicating the UEX rider's existence does not appear to have dampened the Companies efforts to collect arrearages from the customers that incurred them. The only anomaly in the data is the significant decline in Dominion's 2006 ratio. It shows a significant decline just as there was a decline in Dominion's disconnections from 2004 through 2006. This may warrant additional evaluation in Dominion's next application to adjust its UEX rider. Otherwise the data do not appear to indicate any issues regarding the diligence with which the Companies conducted collections to mitigate the UEX recoveries. Staff has no additional recommendations to make regarding continuation of the UEX rider.

As a final matter we are presenting the information in Table 3 in response to the Commission's directive that this Staff Report should identify amounts recovered by the Companies pursuant to the mechanism.

Table 3

UEX RIDER RECOVERIES

	Columbia	DEO	Vectren	Ohio Gas	Northeast	Pike	Eastern
2004	\$7,860,642	\$11,934,753	\$2,270,188	N/A	\$2,252	N/A	N/A
2005	\$31,187,318	\$37,117,372	\$5,105,531	N/A	\$11,621	N/A	N/A
2006	\$25,088,465	\$39,986,302	\$3,800,554	\$197,996	\$12,010	\$19,552	\$63,778
2007	\$32,109,639	\$60,981,041	\$5,931,583	\$343,843	\$28,065	\$50,968	\$73,101

IV. STAFF RECOMMENDATIONS

- That the UEX mechanism be continued for a period of time not to exceed an additional 5 years without a subsequent Staff investigation and report on the amounts collected and any impacts on the utilities' collection policies.
- That the Companies file annual reports in this docket no later than January 31st of each subsequent year, detailing:
 - Beginning year uncollectible balance
 - Additions to the uncollectible balance including the vintage of the additions (e.g. 1- 6 months, 6 months – 1 year, etc.)
 - Credits to the uncollectible balance disaggregated by:
 - Collections from the rider
 - Collections from customers
 - Collections from collection agencies
 - Collections from other third parties

Attachment 1

<u>Dominion</u>			
Balance	Effective Date	Rate	
\$13,743,741	02-Apr-04	\$0.0601	East Ohio
		\$0.0782	West Ohio
\$15,959,077	02-Jul-04	\$0.1877	East Ohio
		\$0.1876	West Ohio
\$30,326,816	06-Jul-05	\$0.2531	East Ohio
		\$0.2530	West Ohio
\$34,930,819	07-Jul-06	\$0.2906	
\$65,569,412	15-Aug-07	\$0.5674	
	17-Jul-08	\$0.4662	
	16-Oct-08	\$0.4444	

<u>Columbia</u>		
Balance	Effective Date	Rate
\$13,447,622		
\$19,763,392	29-Apr-04	\$0.0493
	27-Oct-04	\$0.2076
\$12,978,587	29-Jun-05	\$0.1338
\$10,295,929	31-May-06	\$0.2116
\$4,629,032	31-May-07	\$0.1631
\$7,684,383	30-Jun-08	\$0.2265

<u>Vectren</u>		
Balance	Effective Date	Rate
\$2,965,977	31-Dec-03	
	16-Apr-04	\$0.0382
	30-Jun-04	\$0.1567
\$549,494	30-Apr-05	
	29-Jun-05	\$0.0923
\$1,163,532	30-Apr-06	
	16-Aug-06	\$0.1468
\$1,165,518	30-Apr-07	
	01-Aug-07	\$0.1882
(\$2,109,312)	30-Apr-08	
	02-Jul-08	\$0.1165

<u>Ohio Gas</u>		
Balance	Effective Date	Rate
\$48,408	01-Feb-06	\$0.0282
\$144,314	01-Jul-06	\$0.0658
\$2,980	01-Jul-07	\$0.0384
\$3,531	01-Aug-08	\$0.0094

<u>Eastern</u>		
Balance	Effective Date	Rate
\$8,305	01-Jan-04	\$0.0361
\$7,525	01-Jan-06	\$0.0880
(\$127)	01-Jul-07	\$0.1203
(\$4,445)	01-Aug-08	\$0.0808

<u>Northeast</u>		
Balance	Effective Date	Rate
\$0	01-Dec-04	\$0.0100
\$0	12/31/2004	
\$13,199	31-Dec-05	
\$42,008	31-Dec-06	
	09-Nov-07	\$0.0810
\$128,980	31-Dec-07	
\$37,629	02-Dec-08	

<u>Pike</u>		
Balance	Effective Date	Rate
\$12,615	01-Jan-04	\$0.0660
\$2,977	01-Jul-06	\$0.0787
(\$932)	01-Jul-07	\$0.0155

<u>Orwell</u>		
Balance	Effective Date	Rate
	17-Jul-07	\$0.1000
(\$43,188)	31-Dec-07	
(\$46,648)	02-Dec-08	

Attachment 2

DOMINION

	Beginning Year Balance	Incremental Uncollectables	Rate / Rider Recoveries	Customer Recoveries	Amortization of Regulatory Asset	Carrying Charges	Year End Uncollectables
1999	N/A	\$20,987,850	N/A	\$2,702,072	N/A	N/A	N/A
2000	N/A	\$15,881,120	N/A	\$2,846,726	N/A	N/A	N/A
2001	N/A	\$43,521,949	N/A	\$4,381,980	N/A	N/A	N/A
2002	N/A	\$53,108,825	N/A	\$7,592,937	N/A	N/A	N/A
2003	\$0	\$30,737,716	\$11,473,154	\$5,543,404	N/A	\$34,708	\$13,755,866
2004	\$13,755,866	\$43,160,034	\$17,501,718	\$12,920,684	\$5,069,578	\$318,185	\$31,881,261
2005	\$31,881,261	\$52,763,988	\$37,117,372	\$21,210,335	\$10,139,157	\$544,451	\$37,001,150
2006	\$37,001,150	\$63,969,571	\$39,986,302	\$11,276,959	\$10,139,157	\$1,252,262	\$61,098,879
2007	\$61,098,879	\$63,805,116	\$60,981,041	\$17,756,186	\$10,139,157	\$1,963,225	\$58,269,150

VECTREN *

	Beginning Year Balance	Incremental Uncollectables	Rate / Rider Recoveries	Customer Recoveries**	Amortization of Regulatory Asset	Carrying Charges	Year End Uncollectables
1999	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2001	N/A	\$5,965,202	\$1,370,355	\$1,395,135	N/A	N/A	N/A
2002	N/A	\$6,059,668	\$1,526,801	\$1,213,444	N/A	N/A	N/A
2003	\$0	\$8,602,618	\$1,500,398	\$4,156,128	N/A	\$10,747	\$2,956,839
2004	\$2,985,977	\$7,583,925	\$3,256,096	\$4,581,186	N/A	\$56,514	\$2,769,134
2005	\$2,705,339	\$11,292,789	\$5,105,531	\$6,528,395	N/A	\$63,307	\$2,427,509
2006	\$2,377,665	\$10,945,241	\$3,800,554	\$5,463,260	N/A	\$84,530	\$4,143,622
2007	\$4,143,622	\$7,520,793	\$5,931,583	\$4,483,324	N/A	\$64,975	\$1,314,483

*Beginning year balance may differ from prior end of year balance due to staff recommended adjustments.

COLUMBIA

	Beginning Year Balance	Incremental Uncollectables	Rate / Rider Recoveries	Customer Recoveries	Amortization of Regulatory Asset	Carrying Charges	Year End Uncollectables
1999	N/A	\$21,220,769	\$8,397,475	\$10,763,080	N/A	N/A	N/A
2000	N/A	\$20,980,882	\$8,716,958	\$10,134,986	N/A	N/A	N/A
2001	N/A	\$43,320,353	\$8,565,803	\$17,018,165	N/A	N/A	N/A
2002	N/A	\$32,463,441	\$8,594,236	\$16,285,004	N/A	N/A	N/A
2003	\$0	\$40,167,818	\$9,254,318	\$17,554,195	N/A	\$88,319	\$13,447,624
2004	\$13,447,624	\$43,884,349	\$13,815,110	\$25,775,181	\$767,694	\$352,344	\$18,861,720
2005	\$18,706,492	\$52,624,357	\$31,187,318	\$31,991,066	\$4,606,164	\$219,962	\$12,978,591
2006	\$12,978,591	\$61,442,980	\$25,088,465	\$33,855,252	\$4,606,164	\$584,084	\$20,668,102
2007	\$20,668,102	\$65,355,256	\$32,109,639	\$42,588,975	\$4,606,164	\$506,954	\$16,437,862

OHIO GAS

	Beginning Year Balance	Incremental Uncollectables *	Rate / Rider Recoveries	Customer Recoveries	Amortization of Regulatory Asset	Carrying Charges	Year End Uncollectables
1999	N/A	\$108,425	\$169,289	\$23,831	N/A	N/A	N/A
2000	N/A	\$128,119	\$174,342	\$22,219	N/A	N/A	N/A
2001	N/A	\$369,931	\$169,894	\$65,390	N/A	N/A	N/A
2002	N/A	\$272,919	\$176,371	\$83,407	N/A	N/A	N/A
2003	N/A	\$281,119	\$187,073	\$105,619	N/A	N/A	N/A
2004	N/A	\$318,250	\$174,895	\$135,876	N/A	N/A	N/A
2005	\$0	\$405,524	\$177,897	\$133,323	N/A	(\$234)	\$94,070
2006	\$94,070	\$463,671	\$225,881	\$183,280	N/A	\$1,161	\$149,741
2007	\$149,741	\$451,046	\$343,843	\$228,115	N/A	\$0	\$28,829