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

Ohio Gas Company
Case Number 14-411-GA-PIP

May 29, 2014

Audit of the Percentage of Income Payment Plan
for the period January 2012 through December 2013

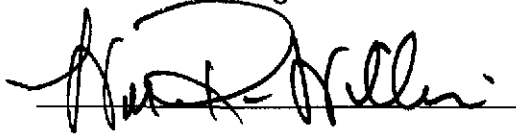
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Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audit of the Ohio Gas Company (Ohio Gas or Company) Percentage of Income Payment Plan (PIP) rates for January 1, 2012 through December 31, 2013. The Staff audited the material as set forth in the Commission Entry in Case No. 14-411-GA-UEX.

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, Ohio Gas Company accurately calculated its 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.

A handwritten signature in black ink, appearing to read "Wm. Ross Willis", is written over a horizontal line.

Wm. Ross Willis
Chief, Rates Division
Public Utilities Commission of Ohio

Enclosure
cc: Parties of Record

Ohio Gas Company
Percentage of Income Payment Plan

Commission Entry

On February 13, 2014, the Public Utilities Commission of Ohio (Commission) initiated the financial audit of Ohio Gas Company's (Ohio Gas or Company) Percentage of Income Payment Plan (PIPP). The audit examined the PIPP rider rates in effect for the calendar years 2012 and 2013 (audit period). Staff has conducted its first audit of Ohio Gas' 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. As a result of the investigation, a report was filed on May 3, 2010, that presented findings and recommendations to enhance utility companies' collections practices for uncollectible expense and PIPP. As a result of the investigation, 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 May 22, 2013 and May 19, 2014, Ohio Gas filed its annual PIPP applications in Case No. 13-1236-GA-PIP and Case No. 14-411-GA-PIP. The 2013 application contained write-offs and recoveries for the calendar year 2012 and the first quarter of 2013. The 2014 application contained the write-offs and collections for 2013 and the first quarter of 2014.

Audit Process and Documentation

On April 21, 2014, Staff initiated its audit of Ohio Gas with the issuance of data requests (DRs) seeking documentation of the charge-offs, collections through the rider, and credit balances as contained in the

Company's 2013 and 2014 PIPP applications. The documents were made available during Staff's on-site visit to the Company's headquarters in Bryan, Ohio.

In review of the Company's documentation, Staff relied upon the Pip Aging (Aging) and Uncollectible PIP balance (Uncollectible) reports which were prepared to verify the monthly charge-offs for 2012 and 2013. These reports were generated from Ohio Gas' customer billing system and contained account balances of active, inactive and disconnected customers. The Aging report showed all active and inactive PIPP customers' account balances and identified the balance as either under 60 days or over 60 days. The Uncollectible report contains account balances for customers who have been disconnected and sent to collections. With these two reports, the Company calculated its monthly charge-off as the incremental change from the prior month to the current month. This was accomplished by summing the over 60 days account balance and the Uncollectible account balance. The Company believed that this incremental change figure represented the amount that would not be recovered from PIPP customers and should therefore be recoverable through the PIPP rider.

Staff, after reviewing the Aging and Uncollectible reports and recalculating the incremental changes in balance for all the months, found its calculations agreed to the charge-offs filed in the Company's 2013 and 2014 PIPP applications.

In its next phase of the audit, Staff selected a random sample of customer account balances from the Aging report and requested the customers' billing history. The customer billing history documented the frequency of customer payments, timeliness of payments, amount of installment payments, assistance payments, increases and decreases in installment payments due to annual re-verification of income, arrearage forgiveness credits and accumulative account balances. Staff sampled the accumulative accounts balances contained in the customer billing histories and compared them to the account balances listed in the Aging reports and found that all balances agreed.

Also noted by Staff in its review of the customer billing histories were instances in which it appeared that some customers should have qualified for arrearage forgiveness, but were not listed in the detailed arrearage forgiveness calculations provided by the Company. Staff questioned the Company as to why the customers had not qualified. In all instances, the Company provided information that revealed the customers in question had not made timely payments and/or had not made at least 9 payments within the period of September to August or had not been a PIPP customer for a least 12 months.

Staff also notes that there were a small percentage of customers who had not made any of their installment payments but were able to utilize assistance programs, such as the Home Energy Assistance Program (HEAP), in conjunction with the Winter Reconnect Order (WRO) to re-establish service. These customers retained service through the winter months and would be disconnected in the spring for non-payment, while continuing to accumulate an unpaid balance year after year.

PIPP Arrearage Forgiveness

On August 19, 2009, in Case No. 08-723-AU-ORD, Ohio Gas was granted a waiver by the Commission to adopt an alternative PIPP forgiveness program. Ohio Gas's alternative program provides an arrearage

credit to a PIPP customer who makes at least nine timely PIPP payments in a 12- month period. This proposal grants an arrearage credit to a PIPP customer making 75 percent of the minimum required PIPP payments, in full and on time. It also affords the PIPP customer the opportunity to eliminate the accumulated arrearage (historic, previously accrued) and accumulating arrearage balances (the difference between the PIPP payment and the actual bill) in one year.

In order to participate in this program, Ohio Gas 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 in the 12-month period; and (c) make payments totaling at least 75 percent of the annual total PIPP payment obligation amount. The Company's forgiveness calculations recognize that, as the customers make more on time and in full payments, the percentage of arrearage forgiveness increases. 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.

Staff initiated its review of Ohio Gas' arrearage forgiveness program through a data request. The Company provided Staff with the documents for 2012 and 2013. The documents contained customers' accounts whose balances were being credited for timely and in full payments. Staff randomly selected customers from the documents and requested copies of their billing history. The customer billing histories were examined to determine if the calculated arrearage forgiveness was properly credited to customers' accumulative account balances. Staff also verified that these balances matched/tied to the account balances listed on the Aging reports for September 2012 and 2013. Staff found that the account balances agreed. Staff also finds that the Company has properly applied the alternative PIPP forgiveness program as approved by the Commission.

Conclusions and Recommendations

This is Staff's initial audit of Ohio Gas' PIPP applications. Staff's findings are that Ohio Gas has properly accounted for charge-offs and recoveries for 2012 and 2013. Staff also finds that the Company has properly implemented the Commission approved arrearage forgiveness program.

Staff has no recommendations in its audit of Ohio Gas' PIPP applications.

The Public Utilities Commission of Ohio
John R. Kasich, Governor
Todd A. Snitchler, Chairman

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