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

**Orwell Natural Gas
Case Number 14-312-GA-UEx**

**Audit of the Uncollectible Expense Mechanisms
for the period January 2012 through December 2013**

January 22, 2015

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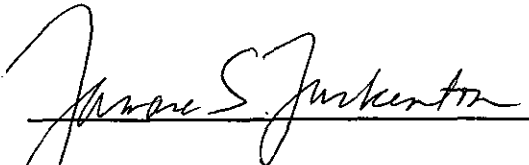
Ohio

**Public Utilities
Commission**

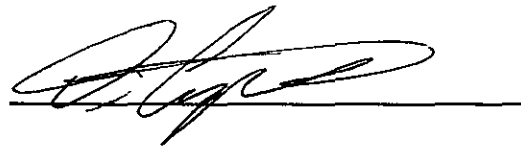
Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audit of Orwell Natural Gas Company (Orwell or Company) Uncollectible Expense Rider (UEX) rates for January 1, 2012 through December 31, 2013. The Staff audited the material as set forth in the Commission Entry in Case No. 14-312-GA-UEX.

Our audit has 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, Orwell accurately calculated its UEX 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.



Tamara S. Turkenton
Chief, Regulatory Services Division
Public Utilities Commission of Ohio



David Liphtratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Orwell Natural Gas Company Uncollectible Expense Rider

Introduction

In Case No. 07-163-GA-ATA, Orwell Natural Gas (Orwell) filed an Application for Tariff Approval (Application) with the Public Utilities Commission of Ohio (Commission). The Application, among other things, sought approval to establish and implement an Uncollectible Expense Rider (UEx Rider).

Background

On June 27, 2007, the Commission issued an Opinion and Order authorizing Orwell to establish and implement an initial UEx Rider of \$0.10 per MCF to its Small General Service (SGS) rate schedule, which became effective for bills rendered on or after June 29, 2007.

On August 19, 2009, in Case No. 08-1229-GA-COI, *In the Matter of the Five-Year Review of Natural Gas Company Uncollectible Expense Riders*, the Commission required natural gas companies including Orwell to file annual reports detailing their bad debt accounts and calculations regarding the recovery of bad debt accounts.

In Case No. 12-312-GA-UEx, *Audit of the Uncollectible Expense Mechanisms for the period January 2010 through December 2011* (2012 Case), Staff filed its audit report on February 14, 2013. In the report, Staff made the following recommendations:

- Orwell should follow company procedures in writing-off accounts after 180 days of nonpayment to individual accounts.
- Upon notification of bankruptcy or death on accounts, Orwell should place those accounts into a contra account until the 180 day time frame has been attained.
- Orwell shall discontinue the practice of applying monthly service and finance charges to customer accounts beyond the 180 day time period or after disconnection.
- Orwell shall review their 2012 write-off accounts for monthly service and finance charges that were applied to accounts beyond the 180 day time limit. Orwell should remove those charges to accurately reflect proper write-off amounts.
- Orwell should double-check its accuracy reflecting the amount of gas volumes for the purpose of calculating recoveries through the UEx rider.

- Orwell should adjust its December 2011 ending balance to \$41,880.39 to correct errors made in the ABR as shown in Attachment 1 of the report.

On November 13, 2013, the Commission in its Order and Opinion in the 2012 Case approved Staff's recommendations made in the report.

Staff's Review

Staff began the audit by reviewing Orwell's collection practices and procedures and found that sufficient attempts were made to collect on past due accounts. Per Company policy, monthly statements and collection notices continue to be sent until the account is six months past due. At this point, the account is to be written-off.

In previous UEX audits of local distribution companies (LDCs), Staff has recommended that the LDCs write-off accounts for non-payment at a minimum of 60 days to a maximum 180 days.¹

An examination of randomly selected accounts that were written-off by the Company indicates that Orwell continues to not follow the above policy. Staff found that the number of days from a customer's last payment to writing-off the account averaged 343 days in 2012 and 426 days in 2013. The average amount of time to write-off an account during the prior audit period was 350 days.

In the previous audit, Staff discovered that Orwell immediately wrote-off accounts upon death of a customer, regardless of the minimum 180 day policy. Staff recommended that Orwell place these accounts into a contra account until the maximum 180 day time frame has been met. Staff confirmed in this audit that Orwell's bad debt accounts of deceased customers are written-off at the 180 day limit.

In the previous audit, Staff discovered that Orwell immediately wrote-off accounts when notified that an account had been included in a bankruptcy proceeding. Staff found that the Company continues to write-off accounts to the bad debt rider account upon notification of Chapter 11 bankruptcy proceedings before the 180 day cap or notification of discharge from the bankruptcy court. Staff believes this is contrary to the 2012 Order. Therefore, Orwell should place the bad debt into a contra account until the 180 day maximum is reached or upon notification of discharge by the bankruptcy court and write-off at that time.

In the 2012 Case, Staff discovered several accounts were written-off prematurely. Staff did not find any written-off accounts during this audit period that preceded the 180 day policy.

¹ Case No. 13-310-GA-UEx (Glenwood Energy of Oxford, Inc.), Case No. 12-309-GA-UEx (Northeast Ohio Gas Company), Case No. 12-312-GA-UEx (Orwell Natural Gas), Case No. 14-313-GA-UEx (Piedmont Gas Company), and Case No. 09-217-GA-GCR (Waterville Gas and Oil Company).

Staff conducted a random sample of written-off accounts contained in the Annual Balance Reconciliation (ABR) to determine the accuracy of amounts written-off. Staff did not find any exceptions to the reported write-off amounts.

Staff discovered, in the 2012 Case, that Orwell continued to bill monthly service and finance charges to customer accounts beyond 180 days after the last payment was recorded. Staff also discovered that Orwell billed monthly service and finance charges after service disconnection.

The randomly selected accounts that were audited for this period did not indicate any monthly service or finance charges beyond 180 days or after service disconnection.

Staff examined recoveries resulting from the billing of the UEX rider. Staff relied upon the sales volumes reported in Case No. 14-212-GA-GCR, *Financial Audit of the Gas Cost Recovery Mechanisms for the Effective GCR Periods July 1, 2012 through June 30, 2014* (GCR Audit), to calculate the amount of recovery obtained through the UEX rider.

From January 1, 2012 through July 31, 2012, the approved UEX rider rate was \$0.17081 per Mcf. In Case No. 12-312-GA-UEx, *In the Matter of the Uncollectible Expense Rider of Orwell Natural Gas Company*, Orwell applied for and was approved by the Commission to charge a UEX rider rate of \$0.06737 per Mcf. Orwell's UEX rider rate became effective in August 2012 and remained in effect through December 2013.

Staff determined that Orwell properly applied the UEX rates in customer billing throughout the audit period. However, the amount of recoveries the Company received during the audit period changed because Staff used the GCR Audit sales volumes for calculation.

Attachments 1 and 2 of this report detail Staff's calculations in determining the Company's December 2013 ending balance.

Per Commission Order signed on December 17, 2003 in Case No. 03-1127-GA-UNC, local distribution companies such as Orwell are to "...annually file with the Commission a report (each May) that identifies amounts recovered, deferred and, as applicable, amortized pursuant to the mechanism." Orwell complied with this Order during the audit period.

Staff's Findings

Orwell's collection policies and practices require accounts to be written-off after 180 days for nonpayment of billed charges. Orwell did not act in accordance with this policy, nor followed the Commission's Order in doing so.

No errors in write-off amounts compared to customer's ending account balances were identified.

Staff did not find any customer accounts that were billed monthly service and finance charges when no payment activity had taken place on the account following the 180 day time frame.

Staff did not find any customer accounts that were billed monthly service and finance charges to customer accounts after disconnection of service.

Orwell correctly applied the UEX rider rates to customer's bills during the audit period.

Recoveries were underreported due to incorrect sales volumes used in the calculations for the audit period.

Accounts of deceased individuals were written-off at 180 days.

The Company writes-off accounts before the 180 day limit upon notification of a Chapter 11 bankruptcy filing. This is contradictory to the 2012 Order.

Orwell complied with the Commission Order annual filing requirements as contained in Case No. 03-1127-GA-UNC.

Staff's Recommendations

Orwell should follow company procedures in writing off accounts after 180 days of nonpayment to individual accounts.

Upon notification of a Chapter 11 bankruptcy filing, Orwell should place the account into a contra account until the 180 day time frame has been attained to write-off the account to the bad debt rider account. If the Company has received notification from the bankruptcy court that the bad debt has been discharged prior to the 180 day limit, Orwell may place the account in the bad debt rider account.

Orwell should adjust its December 2013 ending balance to \$(39,166.58) to correct errors made in the ABR as shown in the following attachments.

ATTACHMENT 1

ORWELL NATURAL GAS COMPANY
UNCOLLECTIBLE ACCOUNTS EXPENSE RIDER
2012 ANNUAL BALANCE RECONCILIATION

Staff Calculations	2012											
	January	February	March	April	May	June	July	August	September	October	November	December
1) Balance - Beginning of Month	\$ 41,880.39	\$ 20,329.89	\$ 2,690.43	\$ (19,522.22)	\$ (29,272.92)	\$ (17,248.81)	\$ (13,725.13)	\$ (17,241.65)	\$ (18,216.04)	\$ (19,383.91)	\$ (9,279.27)	\$ (16,514.34)
2) Bad Debts Written Off	\$ -	\$ -	\$ -	\$ -	\$ 19,235.53	\$ 7,402.03	\$ -	\$ (120.65)	\$ -	\$ 12,254.55	\$ (1,761.59)	\$ -
3) Recovery - Base Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4) Recovery - Bad Debt Rider (a)	\$ 21,626.08	\$ 23,041.76	\$ 16,804.80	\$ 9,691.42	\$ 7,154.89	\$ 3,540.72	\$ 3,478.89	\$ 810.66	\$ 1,122.18	\$ 2,115.08	\$ 5,442.15	\$ 6,525.19
5) Recovery - Other (b)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6) Incremental Bad Debt (2) - (3) + (4) - (5)	\$ (21,626.08)	\$ (23,041.76)	\$ (16,804.80)	\$ (9,691.42)	\$ 12,080.64	\$ 3,561.31	\$ (3,478.89)	\$ (931.31)	\$ (1,122.18)	\$ 10,139.47	\$ (7,203.74)	\$ (6,525.19)
7) Balance Subtotal (1) + (6)	\$ 20,254.31	\$ (2,711.86)	\$ (19,695.23)	\$ (29,213.64)	\$ (17,192.28)	\$ (13,687.50)	\$ (17,204.02)	\$ (18,172.96)	\$ (19,338.22)	\$ (9,244.44)	\$ (16,483.00)	\$ (23,039.53)
8) Carrying Charges ((1)+(7))/2 (c)	\$ 75.59	\$ 21.43	\$ (26.99)	\$ (59.29)	\$ (56.52)	\$ (37.63)	\$ (37.63)	\$ (43.08)	\$ (45.08)	\$ (34.83)	\$ (31.34)	\$ (48.12)
9) Balance - End of Month (7) + (8)	\$ 20,329.89	\$ (2,690.43)	\$ (19,522.22)	\$ (29,272.92)	\$ (17,248.81)	\$ (13,725.13)	\$ (17,241.65)	\$ (18,216.04)	\$ (19,383.91)	\$ (9,279.27)	\$ (16,514.34)	\$ (23,087.65)
(a) Calculated: actual consumption times authorized rider rate												
(b) Consists of customer payments, net-collection agency revenue, and other collections												
c) Net Monthly Carrying Charge	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%	0.2433%
(d) Annual CC Rate (Staff Calculated)	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%	2.9196%
Sales Volumes	126,611	134,899	98,390	56,743	41,893	20,734	20,372	12,038	16,662	31,400	80,785	96,861

ATTACHMENT 2

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The Public Utilities Commission of Ohio
John R. Kasich, Governor
Thomas W. Johnson, Chairman

180 E. Broad Street, Columbus, Ohio 43215-3793
800 | 686-PUCO (7826)

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