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

**Northeast Ohio Natural Gas Corporation
Case Number 14-309-GA-UEx**

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

January 22, 2015

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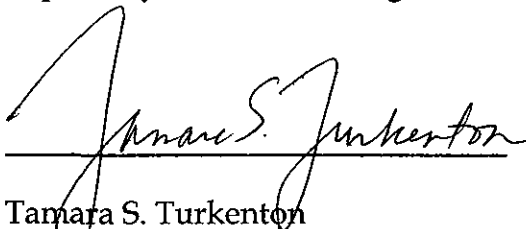
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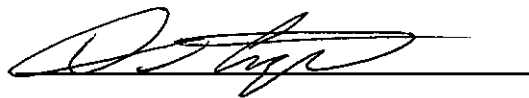
Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audit of Northeast Ohio Natural Gas Corporation (Northeast 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. 14-309-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, Northeast 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.



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Chief, Regulatory Services Division
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Northeast Ohio Natural Gas Corporation Uncollectible Expense Rider

Introduction

Northeast Ohio Natural Gas Corporation (Northeast) began its deferral of uncollectible account expenses in July 2003 with Commission approval in Case Nos. 03-2170-GA-AIR and 04-964-GA-ATA. In Case No. 03-2170-GA-AIR, all test year uncollectible expenses were removed from the adjusted operating expenses in Staff's rate case report to recognize the pending application for the UEX rider in Case No. 04-964-GA-ATA.

Staff's Review

The Staff reviewed and analyzed Northeast's collection practices and procedures. Residential, commercial and industrial accounts are due 14 days after the billing date and are subject to finance charges if the payment is not made within that time frame. An examination of randomly sampled accounts confirms Northeast's policy of providing ample time to allow payments to be made before finance charges are applied.

Staff determined that sufficient attempts were made to collect on past due accounts. Several reminders are mailed and at least two courtesy calls are made prior to disconnection. If no payment is received by the time the account is 65 days past due, notice is hand-delivered to the address where service is being provided. If no payment is received at that time, service is disconnected. Monthly statements and collection notices continue to be sent until the account is six months (180 days) past due. At this point, the account is written off.

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

For the audit period, Staff examined randomly selected accounts to verify Northeast's write-off policy. The examination revealed that during the audit period, Northeast's average number of days to write-off an account from the date of the final payment was 302 days in 2012 and 219 days in 2013.

Staff notes that the amount of time to write-off an account is a stark improvement from the last audit conducted for 2010 and 2011 (Case No. 12-309-GA-UEx), where the average time to write-off an account was 352 days from the date of the last payment. Staff believes the decrease in time to write-off an account is based on Staff Recommendations made in the 2012 Staff Report.

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).

Next, Staff verified Northeast's monthly write-offs as contained in the Annual Balance Reconciliation (ABR) filed with the Commission. In Case No. 12-309-GA-UEx, *Audit of the Uncollectible Expense Mechanisms for the period January 2010 through December 2011*, Staff recommended that Northeast have a January 2012 beginning balance of (\$75,655.82). Northeast did comply with Staff's recommendation for the ABR. Staff compared the write-offs with a Bad Debt report provided by Northeast which individually lists each account written-off. No discrepancies were found.

Staff randomly selected accounts from the Bad Debt Report and requested billing histories for each account. Staff verified that for each account selected the proper amount was included in the Bad Debt Report. Additionally, Staff verified that for each account written-off, no payment had been made for at least 60 days prior to writing-off the account.

Staff then examined recoveries resulting from the billing of the UEX rider. During the audit period, only November and December of 2013 had an UEX rider rate. Staff relied upon the sales volumes reported in Case No. 14-209-GA-GCR, *Financial Audit of the Gas Cost Recovery Mechanisms for the Effective GCR Periods March 1, 2012 through February 28, 2014*, to calculate the amount of recovery obtained through the UEX rider.

Northeast reported total recoveries during the audit period of \$3,947.72. Staff determined that Northeast correctly applied the UEX rider with the sales volumes reported.

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

Staff's Findings

Northeast's collection policies and practices require accounts to be written-off after 180 days for nonpayment of billed charges. Although Northeast did not follow procedures with this policy, they showed signs of improvement in writing-off accounts.

In its examination of Bad Debt write-offs, Staff found that the amounts included on the ABRs matched those detailed in Northeast's Bad Debt Reports.

When calculating recovery through the UEX rider, Staff found that Northeast properly calculated recoveries for November and December 2013.

Staff is in agreement with the Company's December 2013 ending balance.

Staff found that Northeast did file Commission-ordered Annual Uncollectible Expense Rider Balance Reports in 2012 and 2013.

Northeast Ohio Gas Company
14-309-GA-UEx

Staff's Recommendations

Northeast should follow company procedures in writing-off accounts 180 days after nonpayment of individual accounts.

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

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