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

Northeast Ohio Natural Gas Corporation
Case No. 14-409-GA-PIP

January 22, 2015

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 Northeast Ohio Natural Gas Corporation (NEO or Company) Percentage of Income Payment Plan (PIPP) rates for January 1, 2012 through December 31, 2013. The Staff audited the material as set forth in the Commission Entry in Case No. 14-209-GA-PIP.

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, Northeast Ohio Natural Gas Corporation 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.



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Public Utilities Commission of Ohio



David Lipthrott
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Enclosure
cc: Parties of Record

Northeast Ohio Natural Gas Corporation

Percentage of Income Payment Plan

Commission Entry

On February 13, 2014, the Public Utilities Commission of Ohio (Commission) initiated the financial audit of Northeast Ohio Natural Gas Corporation (NEO 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 NEO's 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. A report was filed on May 3, 2010 that presented findings and recommendations to enhance utility companies' collections practices for uncollectible expenses and PIPP. As a result, 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 December 4, 2013, NEO filed its annual PIPP application in Case No. 13-2351-GA-PIP (PIPP application). The 2013 application contained write-offs and recoveries from July 2009 to June 2013. NEO have not filed its 2014 application which contains the write-offs and recoveries for the second half of 2013 and a portion of 2014. In order to complete its audit of 2013, NEO provided Staff with the necessary documentation for the last half of 2013.

Audit Process and Documentation

On August 18, 2014, Staff initiated its audit of NEO with the issuance of data requests (DRs) seeking documentation of the write-offs, collections through the rider, and account balances as contained in the Company's 2013 PIPP application and forthcoming application. The documents were made available through a shared web site established for this audit, along with gas cost recovery and uncollectible expense audits for NEO, Orwell Natural Gas Company and Brainard Gas Corporation.

In review of the Company's documentation, Staff relied upon the Company's monthly Gas PIPP Reports (PIPP reports). These PIPP reports are filed monthly with the Service Monitoring and Enforcement Department. The reports are submitted in excel format and contain several tabs. The tab that Staff primarily relied upon was titled "PIPP Summary". The PIPP summary tab was a query from the Company's customer billing system that was pasted into excel. The information contained in the query mirrors the information that is typically found in a customer's billing history starting with the current month's billed amount, installment payment, current month's payment, additional payment, other credits, other charges, Home Energy Assistance Program (HEAP) credits and account balances.

Staff reviewed the PIPP reports for the audit period and agreed with the amounts shown in the Company's PIPP application through June 2013. Staff was provided with the remaining six months of 2013.

Staff noted one exception, and that was the accumulative ending balances of all PIPP customers' accounts (active and inactive) as of December 31, 2011. The PIPP application shows the beginning account balance as of January 2012 as \$77,273.52. The January 2012 beginning balance should be the same as the December 31, 2011 ending balance. However, in examining the PIPP reports, Staff found the ending balance as of December 31, 2011 to be \$93,376.03, a difference of \$16,102.51. This difference in ending balance carried through all of the monthly ending balances as shown on the PIPP application. All balances were off by \$16,102.51.

From the PIPP Reports, Staff randomly selected customers for which their billing histories were requested. Using the customers' billing history, Staff compared the customers' account balances, monthly billed amount, monthly payments, additional payments, HEAP, and arrearage forgiveness credits to those contained on the PIPP reports. Staff found no discrepancies.

PIPP Arrearage Forgiveness

On June 2, 2010, in Case No. 08-723-AU-ORD, NEO was granted a waiver by the Commission to adopt an alternative PIPP forgiveness program and an exemption from the graduate PIPP rules. NEO'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, NEO PIPP customers shall (a) be active participants in the PIPP program for the period November 1 to October 31; (b) make at least nine timely payments of at least the required income-based payment 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 NEO's' 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 monthly Gas PIPP Reports for 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

Staff's finds that other than the omission of the \$16,102.51 from the accumulative customer account balances, NEO 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.

Recommendations

Staff recommends that NEO increase its customers' account beginning balance as of January 1, 2014 by \$16,102.51. The beginning balance as of January 2014 should be set at \$107,587.