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

Eastern Natural Gas Company

Audit of the Uncollectible Expense Mechanisms
For the Periods January 2013 through December 2014

Case Number 15-307-GA-UEX

December 18, 2015

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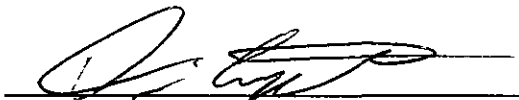
Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audit of the Eastern Natural Gas Company (Eastern or Company) uncollectible expense (UEX) rider rates for January 2013 through December 2014. The Staff audited the material as set forth in the Commission Entry in Case No. 15-307-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, Eastern 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.

A handwritten signature in black ink, appearing to read "Tamara S. Turkenton", written over a horizontal line.

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

A handwritten signature in black ink, appearing to read "David Lipthratt", written over a horizontal line.

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

Eastern Natural Gas Company Uncollectible Expense Rider

Introduction

On February 19, 2015, the Commission authorized Staff to conduct an audit of the Eastern Natural Gas Company's (Eastern or Company) UEX account for the rates effective during the period January 1, 2013 through December 31, 2014. The Commission's Staff has concluded its audit and hereby submits its findings in this Report to the Commission.

Background

In Case No. 03-1127-GA-UNC, the Commission authorized the concept of an uncollectible accounts expense recovery mechanism for five natural gas companies. The mechanism approved allowed for recovery of actual bad/uncollectible debt through a rider, rather than through base rates.

Eastern was authorized in Case No. 04-1779-GA-AIR to establish a rider recovery mechanism consistent with that which was approved in Case No. 03-1127-GA-UNC. On January 11, 2006, the Commission issued its Opinion and Order in that case and authorized an initial uncollectible rider rate (UEX) of \$0.0880 per Mcf. Since that time Eastern has filed annual updates to adjust the rider when appropriate, and the Commission has authorized such subsequent revisions.

On December 12, 2012, in Case No. 12-2792-GA-UNC, the Commission authorized the approval of sale of ownership of Eastern to Utility Pipeline, Ltd. In January 2013, the sale of ownership was completed.

Staff Review

For this audit, Staff reviewed Eastern's collection practices and procedures that were implemented and in effect during the audit period. Staff issued a data request prior to the on-site audit to request the Company's 2013 and 2014 Annual Balance Reconciliation (ABR), the 2013 and 2014 sales volumes that were used to calculate the UEX rate, copies of invoices billed by collection agencies that the Company had placed for recovery through the ABR, the Company's bad debt write-off policies and procedures, the calculations used in applying the UEX monthly rider rate to monthly sales volumes and a list of customer payments made directly to the Company.

In July 2013, the Company implemented a new billing system that was problematic and caused delays in the customer billings. Due to their billing issues, the Company voluntarily implemented a non-disconnection policy until issues with the billing system were resolved. The Company stated

and Staff confirmed that, from July 2013 through December 2014, no disconnections occurred nor were any accounts placed into the ABR.

Staff reviewed customer billing records to ensure that the appropriate monthly UEX rate was charged and confirmed that no carrying charges were applied to the ABR. Staff compared the monthly UEX charges billed to customers with the Company's ABR report and found discrepancies in the October through December 2013 billings. Staff found that the Company incorrectly billed customers a UEX rate of \$0.00 per Mcf instead of the Company's stated UEX rate of \$0.0604 per Mcf. Staff also discovered that the Company prorated the UEX charge when a customer starts or discontinues service during a monthly billing cycle.

Staff obtained and re-calculated invoices billed by collection agencies and the amounts placed for recovery in the ABR and found no discrepancies with the charged amounts.

Staff also examined recoveries resulting from the billing of the UEX rider. Staff relied upon the sales volumes reported in Case No. 15-207-GA-GCR, *Financial Audit of the Gas Cost Recovery Mechanisms for the Effective GCR Periods January 1, 2013 through December 31, 2014* (GCR Audit), to calculate the amount of recovery obtained through the UEX rider. Staff re-calculated the amount received through the UEX rider for August 2013 through December 2013 and found a discrepancy which would result in a change in the December 2014 balance. The Company recorded balance at December 2014 was (\$28,322.45) but should be corrected to reflect a balance of (\$26,775.27), a change of \$1,547.18.

Conclusions

Staff discovered that the Company pro-rated the UEX charge when a customer starts or discontinues service during a monthly billing cycle. This method is not standard industry practice and not the intent of the Opinion and Order date December 17, 2003 in Case No. 03-1127-GA-UNC.

Staff found that Eastern does not have any written procedures in place in writing-off a bad debt account.

Staff found several discrepancies between customer billings and the stated UEX listed in the ABR. Staff found that the Company incorrectly billed customers a UEX rate of \$0.00 per Mcf for October through December 2013 when customers should have been billed \$0.0604 as stated in their ABR. Staff adjusted the listed UEX to match customer bills for those months.

Staff used the sales volumes reported in the GCR audit to re-calculate the amount received through the UEX rider from August 2013 through December 2013. The re-calculation caused a change in the December 2014 ending balance from (\$28,322.45) to (\$26,775.27), a change of \$1,547.18.

Recommendations

Staff recommends that Eastern implement a written bad debt write-off policy. Additionally, Staff recommends that the Company follow Staff's suggestion to write-off accounts for non-payment at a minimum of 60 days to a maximum of 180 days¹.

Staff recommends that the Company should discontinue pro-rating the monthly UEX rate to new and former customers during a billing cycle.

Staff recommends that the Company adjust their December 2014 ending balance to (\$26,775.27). Please see the Staff calculation of the Company's ABR in Attachment A.

¹ 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. 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 (Glenwood Gas and Oil Company).

EASTERN NATURAL GAS COMPANY
PUCO CASE NO. 15-0307-GA-UXX
UNCOLLECTIBLE ACCOUNTS EXPENSE RIDER
2013-2014

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2013-2014

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The Public Utilities Commission of Ohio
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