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

Suburban Natural Gas Company
Case Number 16-416-GA-PIP

July 29, 2016

Audit of the Percentage of Income Payment Plan
For the period January 2014 through December 2015

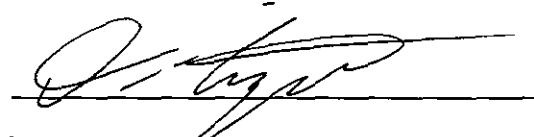
Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audit of the Suburban Natural Gas Company (Suburban or Company) Percentage of Income Payment Plan (PIPP) rates for January 1, 2014 through December 31, 2015. The Staff audited the material as set forth in the Commission Entry in Case No. 16-216-GA-GCR.

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, Suburban Natural 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.



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David Lipthrott
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Enclosure
cc: Parties of Record

Suburban Natural Gas Company
Percentage of Income Payment Plan

Commission Entry

On February 24, 2016, the Public Utilities Commission of Ohio (Commission) initiated the financial audit of Suburban Natural Gas Company's (Suburban or Company) Percentage of Income Payment Plan (PIPP) encompassing the PIPP rider rates in effect for the calendar years 2014 and 2015 (audit period). Staff has conducted its audit of Suburban'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 in order 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 July 7, 2015, Suburban filed its annual PIPP application in Case No. 15-416-GA-PIP. This application was amended on July 8, 2015. On May 9, 2016, Suburban filed its annual PIPP application for 2016 in Case No. 16-416-GA-PIP. The 2015 and 2016 applications contained write-offs and recoveries for the calendar year 2014 and 2015.

Audit Process and Documentation

On June 7, 2016, Staff initiated its audit of Suburban with the issuance of data requests (DRs) seeking documentation of the charge-offs, collections through the rider, and account balances as contained in the Company's 2015 and 2016 PIPP applications. The documents were made available during Staff's on-site visit to the Company's offices in Cygnet, Ohio.

In review of the Company's documentation, Staff relied upon the Company's PIPP Customer Billing and Payment Activity (Activity) reports which were prepared monthly to track account balances for active and inactive customers. These reports were generated from Suburban's customer billing system.

Staff also reviewed Suburban's monthly Aged Receivables – with PIPP report (Aging Report), which was generated from the Company's billing system. The Aging report was used to classify PIPP customers' outstanding account balances into time intervals of 1 to 30 days, 31 to 60 days, 61 to 90 days, 91 to 120 days and over 120 days. Within these intervals, the billing system credited payments, miscellaneous credits and PIPP arrearage credits (PAC) to the oldest outstanding balance, until the interval's balance reached zero, and then started with the next oldest balance. Through the Aging report Staff was able to determine the portion of customers' account balances over 60 days, which was then removed from Account 142.3 and placed into Account 186.

After reviewing the Activity and Aging reports and recalculating the account balances using the monthly totals, Staff found that its calculations agreed with the Company's.

Utilizing the Activity and Aging reports, Suburban calculated each month the activity in Account 186. Staff reviewed these reports and activity in Account 186 and finds that for 2014 and 2015, the amounts reflected in Account 186 match the total amounts contained in Suburban's 2015 and 2016 applications.

In the next phase of the audit, Staff randomly selected customers from the Activity reports and requested their customer billing histories to verify their account balances. The account balances were traced to the Activity reports. Staff found no discrepancies.

Along with its verification of customers' account balances through the billing histories, Staff verified the current month billings, credits (customer payments, PAC and HEAP - Heat Energy Assistance Program) and dates on which the credits were recognized. Staff found no discrepancies between the customers' billing history and the Activity reports.

PIPP Arrearage Forgiveness

Staff also examined customers' account balances to determine if the arrearage forgiveness initiated in November 2010 under the PIPP Plus program were being properly calculated and credited. Staff found that the Company's application of arrearage forgiveness for both the delta credit (customer's billed amount less installment payment) and the 1/24 arrearage credit were properly applied in the selected accounts. Staff also found that once a customer's account balance reached zero, the Company ceased applying the 1/24 arrearage credit. Staff believes that it is appropriate to ensure that 1/24 arrearage credits do not increase a customer's credit balance, thus resulting in more credits being assessed than actual costs being billed to a customer.

Post PIPP Plus and Customer Move-outs with Credit Balance Accounts

Effective April 15, 2015, the Commission modified some provisions of Ohio Administrative Code (O.A.C) 4901:1-18, for Post PIPP, Graduate PIPP and credit account balances. Post PIPP customers who moved off-system could reduce or eliminate their arrearage by making payments equal to 1/60th of their balance. Each payment made by a customer, would reduce their account balance by 1/12th, allowing the customer to eliminate their entire balance by making twelve payments. O.A.C. 4901:1-18 was also modified to address the treatment of PIPP customer's credit account balances. The first change was to no longer allow incentive credits to a customer who had a credit balance. This change resulted in the Company's discontinuance of incentive credits to customers with credit balances after March 2015. Secondly, if a customer has a credit balance, that customer can now request their balance be refunded to them, less any incentive credits that the customer received in the prior 24 months. Customers with a credit balance that moved off-system would also be refunded their balance, less incentive credits. Prior to the rule change credit balances for customers that moved off-system would not be refunded but rather would be credited to the 186 account.

Staff reviewed the Company's calculations and noted that the Company had no Post PIPP customers from April 2015 to December 2015.

For its review of incentive credits, Staff examined the Company's arrearage forgiveness calculations, and found several customers had credit balances. For the period of January 2014 through March 2015, customers with credit balances received delta credits. As of April 2015, the delta credits ceased for customers with credit balances. Staff found that this is consistent with the Company's prior treatment of incentive credits and it is consistent with the recent rule changes.

As part of its audit, Staff reviewed the Company's treatment of its customers' credit balances when they moved off system. Prior to modification of the O.A.C. rules

(January 2014 through April 2015), Staff found that customer credit balances were used to reduce the Company's 186 account. Following modification of the O.A.C. rules (April 2015 through December 2015), the Company refunded credit balances net of incentive credits to customers that had moved off system. Staff found that the Company's treatment of credit balances were consistent with the O.A.C. rules.

Conclusions and Recommendations

Staff's audit of Suburban's 2015 and 2016 PIPP application found that the Company has properly accounted for charge-offs and recoveries for 2014 and 2015. Staff also finds that the Company has properly implemented the O.A.C. rule changes.

Staff has no recommendations in its audit of Suburban's 2015 and 2016 PIPP applications.