

A report by the Staff of the
Public Utilities Commission of Ohio
Suburban Natural Gas Company

20-416-GA-PIP

Audit of the Percentage Income of Payment Plan Rider
for the period January 2018 through December 2019

July 31, 2020

Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff of the PUCO (Staff) has completed the required audit of Suburban Natural Gas Company's (Suburban or Company) Percentage of Income Payment Plan (PIPP) rates for January 1, 2018 through December 31, 2019. The Staff audited the material as set forth in the Commission Entry in Case No. 20-416-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, Suburban accurately calculated its PIPP 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.



David Lipthrott
Chief, Accounting and Finance Division
Public Utilities Commission of Ohio

Suburban Natural Gas Company Percentage of Income Payment Plan

Commission Entry

On January 29, 2020, the Commission initiated the financial audit of Suburban's PIPP encompassing the rider rates in effect for the calendar years 2018 and 2019 (audit period), arrearages, and recoveries. Staff has conducted its audit 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 intervenors. 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 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 collection practices and policies were effective in minimizing uncollectible expenses (UEX)¹. 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.

In November 2010, the Commission modified certain provisions of the Ohio Administrative Code 4901:1-18 (O.A.C.) thus creating the PIPP Plus program. The terms of the PIPP Plus program include a reduction of the PIPP installment payment from 10% of household income to 6% of household income, forgiveness of current billed amounts above the required PIPP installment payment (delta credit), and forgiveness of outstanding balances (arrearage credit). The arrearage credit will reduce outstanding balances 1/24th each month and will completely eliminate those balances if 24 on-time and in-full payments are made.

On May 31, 2019, Suburban filed its annual PIPP application for calendar year 2018 in Case No. 19-416-GA-PIP. As a result of a clerical error, Suburban amended this

¹ *In the Matter of the Five-Year Review of Natural Gas Company Uncollectible Riders*, Case No. 08-1229-GA-COI.

application on May 31, 2019, the same day as filing the initial application. On May 29, 2019, Suburban filed its annual PIPP application for calendar year 2019 in Case No. 20-416-GA-PIP, which Suburban amended on June 8, 2020. The applications contained write-offs and recoveries for the calendar years 2018 and 2019, and were the basis for Staff's audit.

Audit Process and Documentation

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 2018 and 2019 PIPP applications. Staff did not perform the audit at the Company's offices due to concerns about the COVID-19 pandemic, therefore the documents were provided via email communication with Company personnel.

In review of the Company's documentation, Staff relied upon the Company's PIPP Customer Billing and Payment Activity reports (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 PIPP reports (Aging Reports), which were generated from the Company's billing system. The Aging Reports were 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 credit (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 Suburban was able to determine the portion of customers' account balances over 60 days, which was then removed from account 142, Customer Accounts Receivable, and placed into account 186, Miscellaneous Deferred Debits.

After reviewing the Activity and Aging Reports and recalculating the account balances using the monthly totals, Staff found that its calculations materially agreed with the Company's. Each month, Suburban calculated the activity in account 186 by utilizing the Activity and Aging Reports. Staff reviewed these reports and examined the increases and decreases (debits and credits) to account 186 and finds that the amounts reflected in account 186 match the total amounts contained in Suburban's 2018 and 2019 applications.

In the next phase of the audit, Staff verified customers' account balances. In order to confirm the accuracy of these account balances, Staff randomly selected customer accounts from the Activity Reports and requested billing histories of those accounts. Staff traced the beginning balance plus charges less payments to confirm the that ending

balance on the billing history matched the PIPP Activity Report. Staff found no discrepancies.

Along with its verification of customers' account balances, Staff also 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.

PIPP Arrearage Forgiveness

Staff examined customers' approximately 29 account balances using the Company's PIPP Incentive Crediting worksheet to determine if arrearage forgiveness, initiated in November 2010 under the PIPP Plus program, was 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 1/24th 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 1/24th arrearage credit.

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

Effective April 15, 2015, the Commission modified certain provisions of Ohio Administrative Code (O.A.C) 4901:1-18, for Post 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 is to no longer allow incentive credits to a customer who has a credit balance until such time that their balance is no longer below zero. Secondly, if a customer has a credit balance, that customer can now request their balance to 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 will 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 records and noted that the Company had one Post PIPP customer during the first three months of 2018, and zero Post PIPP customers for the remainder of the audit period. Staff reviewed the Company's supporting documentation for this customer and finds that the customer's payments and credits were properly applied, resulting in an ending account balance of zero for the customer.

For its review of incentive credits, Staff examined the Company's arrearage forgiveness calculations, and found several customers each month with credit balances. Staff

confirmed that these customers did not receive delta or arrearage credits once their account balance reached zero. Additionally, Staff reviewed the Company's treatment of its customers' credit balances when they moved off-system. Staff confirmed that customers' credit balances, net of incentive, were refunded when they moved off-system. Staff finds that the Company's treatment of credit balances were consistent with the O.A.C. rule changes.

Graduate PIPP

Staff examined Suburban's customers that were moved from the PIPP program to the Graduate PIPP program. Under the Graduate PIPP program, customers that no longer qualify for PIPP are placed on a budget payment program that considers their former PIPP installment amount and their anticipated budget amount. These two amounts are added together and divided by two in order to come up with the graduate installment amount (graduate installment). If the customer pays the graduate installment on time, the customer will receive two benefits: first the customer will receive a 1/12th reduction on their account balance and second, the customer's current billed amount in excess of the graduate installment will be eliminated. In the course of the audit, Staff examined the billing histories of ten of Graduate PIPP customers and found the customers that made their graduate installments on time resulted in the elimination of their arrearage balances and starting non-PIPP service with zero balances.

PIPP Rider Rate

For the months of September and October 2018, the Company inadvertently billed charged customers a positive rate. The Company discovered the error in November 2018, corrected the rate to credit customers, and then notified Staff of the error. Staff agreed with the Company's decision to immediately correct the charged rate, and recommended that the Company not attempt to refund any amounts to customers, as the difference would correct itself in the normal course of the rider. The Company advised that it has since implemented procedures to ensure that approved tariff rates are charged to customers.

As part of this audit, Staff reviewed the Company's sales reports and PIPP Rider journal entries to confirm the amounts recorded to the rider were based on the actual rate billed to customers in September and October 2018. Staff found that the underlying accounting for the PIPP reflected the erroneously billed amounts, therefore, the error was self-correcting and required no further action by the Company.

Additionally, the Company advised that it reviewed its filed tariffs and determined that the PIPP Rider should be applied to Transportation customers. As a result, beginning in June 2018, the Company began charging some Transportation customers the PIPP Rider rate. In a subsequent analysis, the Company discovered additional Transportation customers

that were not being charged the PIPP Rider. The Company updated its billing system and applied the PIPP Rider to all Transportation customers beginning November 2018. In its review, Staff determined that the PIPP Rider rate was not applied to Transportation customers during the prior audit period, and June 2018 was the first time Transportation customers were charged the PIPP Rider, albeit not all Transportation customers.

Conclusions and Recommendations

Staff has completed its audit of Suburban's 2018 and 2019 PIPP applications and finds that the Company has properly accounted for charge-offs and recoveries for 2018 and 2019. Staff also finds that the Company has properly implemented the O.A.C. rule changes.

Staff recommends that the Company continue to follow their procedures to ensure that approved tariff rates are charged to customers. Additionally, Staff recommends that the Company notify Staff of any tariff changes, such as the decision to apply the PIPP Rider to Transportation customers. Finally, Staff recommends that the Commission order the Company to work with Staff to ensure the adequacy and operating effectiveness of billing-related internal controls.

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Summary: Staff Report of Investigation regarding Staff's Audit of the Percentage Income of Payment Plan Rider for the period January 2018 through December 2019 electronically filed by Zee Molter on behalf of PUCO Staff