

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

Financial Audit of the Percentage of Income Plan
Rider for the Period January 2018 through
December 2019

Northeast Ohio Natural Gas Corporation

Case No. 20-409-GA-PIP

January 1, 2018 through December 31, 2019

Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio, the Staff has completed the required audit of the Northeast Ohio Natural Gas Corporation's (NEO 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's Entry in Case No. 20-409-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, NEO 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 Liphtratt
Chief, Accounting and Finance Division
Public Utilities Commission of Ohio

**Northeast Ohio Natural Gas Corporation
Percentage of Income Payment Plan
Case No. 20-409-GA-PIP**

Commission Entry

On January 29, 2020, the Public Utilities Commission of Ohio (Commission) initiated the financial audit of NEO's Percentage of Income Payment Plan (PIPP) in Case No. 20-409-GA-PIP in order to examine the PIPP rider rates in effect for 2018 and 2019 (audit period). Staff has conducted its audit of NEO's PIPP billings, payments, write-offs, arrearage credits and recoveries and presents its findings and recommendations in this report.

PIPP 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 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 credit and collection 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 UEX and PIPP. As a result, the Commission ordered natural gas companies with UEX and PIPP riders file annual applications that reflect the level of arrearage, write-offs, and collections.

PIPP Audit Process and Documentation

On August 7, 2020, Staff initiated its audit of NEO with the issuance of data requests to the Company seeking records of their write-offs, customer payments, arrearage credits, and account balances. Staff did not audit revenue collected through the rider because the rider rate was set at zero for the duration of the audit period.

In its review of the Company's records, Staff relied upon NEO's Gas PIPP Reports (PIPP Reports) from January 2018 through December 2019. These PIPP Reports contained monthly queries which mirrored the information found in a customer's billing history. Staff reviewed the following data from these reports: PIPP invoices, other invoices, PIPP payments (i.e., from customer and/or HEAP), other customer credits (i.e., adjusting entries, credit memos, and write-offs), and account balances.

Staff randomly selected customers' billing histories to compare to the PIPP Reports. During this review, Staff discovered instances where differences existed between a customer's billing history and the PIPP Report.

Staff compared the PIPP Reports to the information contained in Schedules 27 and 28 of the Company's Annual Reports for 2018 and 2019 (Annual Reports). Schedule 27 – PIP Customer Accounts Receivable contains monthly summarized data for the accounts receivable balances of PIPP customers (Account 142). This summarized monthly data includes: PIPP invoices, other invoices, PIPP payments, and other customer credits. Schedule 28 – PIPP Customer Deferred Accounts Receivable (Account 186.XX/182.3) contains monthly summarized data for write-offs, arrearage credits, and recoveries through the PIPP Rider.

In order to ensure transfers to the deferred PIPP balance included only actual write-offs and arrearage credits, Staff reviewed the write-off summary provided by the Company to support the write-offs of customer accounts. Staff requested general ledger support to corroborate a selection of write-offs. During its review of the general ledger support, Staff found seven instances where a credit memo was applied to customers' accounts rather than a write-off. Given that credit memos are not includable in the deferred PIPP balance, Staff recommends an adjustment of \$1,539.

Additionally, Staff also discovered two instances where write-offs were not properly accounted for in the Company's deferred PIPP balance. The first was related to an instance where a customer's account was written off and subsequently the write-off reversed. The customer's account was correctly written off in a later month; however, the Company did not account for the reversal of the initial write-off in the deferred PIPP balance, resulting in a duplication of the amount written off and an overstatement of \$1,521 to the deferred PIPP balance. Staff recommends a corresponding adjustment to the deferred PIPP balance in order to remove the duplicated amount. The second instance was related to a customer's account that was written off, but the write-off was not included in the deferred PIPP balance. Consequently, the deferred PIPP balance was understated by \$448, which represents the amount written off, but not reflected in the balance.

The Commission ordered in the prior PIPP audit, an adjustment of \$656 associated with improperly applied late fees and security deposits.¹ To ensure this adjustment was properly accounted for, Staff requested general ledger support; however, the support provided by the Company only substantiated \$356 of this adjustment had been recognized. Staff recommends that the Company recognize an adjustment of \$300 to the deferred PIPP balance for the amount of the prior audit adjustment not yet accounted for.

Staff included in the Annual Reports the adjustments described above to ensure that the adjustments were correctly reflected in the ending balances of PIPP Customer Accounts Receivable and PIPP Customer Deferred Accounts Receivable.

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

¹ *In the Matter of the Percentage of Income Payment Plan Rider of Northeast Ohio Natural Gas Corporation and Related Matters*, Case No. 18-409-GA-PIP, et al., Opinion and Order at 14 (September 26, 2019).

(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's 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 nine out of 12 payments resulting in a 75 percent crediting of arrearages. The maximum forgiveness occurs when a customer makes 12 timely installment payments, resulting in 100 percent of the arrearage being forgiven.

Staff initiated its review of NEO's arrearage forgiveness program by reviewing customer billing data from 2018 and 2019 of PIPP customers whose balances could have been credited for timely and in full payments. Staff examined the customers' billing histories to determine if the calculated arrearage credits were properly applied to customers' account balances. Staff found no exceptions to the total arrearage credits; however, Staff notes that arrearage credits for 2018 did not occur until January 2019.

Recommendations

As noted above, Staff found instances where the Company did not properly account for write-offs in the deferred PIPP balance, and recommends an adjustment of \$2,612, which is comprised of the duplicated written off of \$1,521, the credit memos of \$1,539 incorrectly accounted for as write-offs, and the unaccounted for write-off of \$448. Additionally, Staff recommends an adjustment of \$300 related to the prior audit adjustment for which Staff could not sufficiently confirm occurred.

Based on these adjustments, Staff recommends the December 31, 2019 ending balance in Account 186 – PIPP Customer Deferred Accounts Receivable be credited by \$2,912 to recognize the net effect of Staff's adjustments described above. Additionally, Staff recommends Account 142 – PIPP Customer Accounts Receivable be credited by \$448, which represents an unaccounted for write-off. This adjustment is necessary as the write-off debits Account 186, necessitating a corresponding credit to Account 142.

Lastly, due to the timing-related discrepancies noted above, Staff recommends that the Company ensure timely processing of arrearage credits, and entry of transactions into the billing data contained in the PIPP data files.

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Summary: Staff Report Filed electronically filed by Zee Molter on behalf of PUCO Staff