

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

Eastern Natural Gas Company

Audit of the Uncollectible Expense Mechanisms
For the Period January 2019 through December 2020

Case Number 21-307-GA-UEX

June 11, 2021

Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), Staff has completed the required audit of the Eastern Natural Gas Company's (Eastern or Company) uncollectible expense (UEX) rider rates for January 2019 through December 2020. Staff audited the material as set forth in the Commission Entry in Case No. 21-307-GA-UEX.

Our audits have revealed certain findings, as discussed in this audit report, which should be addressed in this proceeding. Staff asserts 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. 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



Adam Burns
Accounting and Finance Division
Public Utilities Commission of Ohio

Enclosure
cc: Parties of Record

Eastern Natural Gas Company
Uncollectible Expense Rider
Case No. 21-307-GA-UEx

Commission Entry

On January 27, 2021, the Commission authorized Staff to conduct an audit of Eastern's UEX account for the rates effective during the period January 1, 2019 through December 31, 2020. 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. 05-824-GA-AIR to establish a rider recovery mechanism consistent with the Finding & Order in Case No. 03-1127-GA-UNC. On June 28, 2006, the Commission issued its Opinion and Order in that case and authorized an initial UEX rider rate of \$0.0787 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 sale of ownership of Eastern to Utility Pipeline, Ltd. In January 2013, the sale of ownership was completed.

In Case No. 18-369-GA-ATR, Eastern and Village Energy Cooperative Association filed a joint application to authorize the transfer of assets and customers from Eastern to Village Energy Cooperative. Currently, this application is pending a rehearing after the Commission denied the transfer of assets in its Finding and Order issued on September 23, 2020.

Staff's Review

Prior to the on-site audit, Staff issued a data request for the Company's 2019 and 2020 Annual Balance Reconciliation (ABR), the 2019 and 2020 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. All items were received; however, the Company confirmed that it did not use a collection agency; therefore, no invoices billed by collection agencies were needed. Separately, the Company advised it would follow up with Staff and provide an updated copy of its bad debt write-off policies and procedures, however, as of the date of this report, Staff has not received a copy.

The Company employs an accounting method known as the aging method to calculate the amount of bad debt the Company encounters each month. This method is used to classify outstanding

accounts receivables by the time elapsed after the billing date or by the due date. The longer a customer's account remains uncollected, the greater is its realization risk. The Company's policy is to include in its allowance for doubtful accounts, the full balances of customers in arrears if the customers have a unpaid balance greater than \$20 that is over 90 days old, and the customer has not made a payment in the past 60 days. If a customer, whose balances were previously included in the allowance for doubtful accounts, makes a payment, the Company removes that customer's entire balance in arrears from the allowance account, which, all else equal, would cause the allowance account to decrease month-over-month. The Company records its monthly bad debt expense incurred based on the difference between the current- and prior-month balance, whether positive (increase) or negative (decrease), in the allowance for doubtful accounts. This bad debt expense incurred by the Company is included in the UEX balance for collection or refund to customers.

The Company informed Staff that it stopped recording bad debt expense in July 2019, as it had expected intention to become a cooperative. Additionally, the Company set the UEX rider rate to \$0.00 beginning in September 2019.

In order to confirm the monthly bad debt expense through June 2019, Staff reviewed the Company's accounts receivable aging reports, which break down receivables from 1-30 days, 31-60 days, 61-90 days, and over 90 days, as well as identifies customers with balances over 90 days old, but have made a payment within the past 60 days. Based on this review, Staff verified the Company correctly recognized its bad debt expense incurred and subsequently included it in the UEX account each month.

The Company provided accounts receivable aging reports from July 2019 through December 2020 to potentially allow Staff to impute the bad debt expense during the period; however, Staff could not rely on these reports as customer payment dates for purposes of identifying customers who made a payment in the past 60 days were based on the date the reports were generated. Since the Company generated the reports between May and June of 2021, the reports included customers who made payments as late as May 2021. As a result, these aging reports would not reflect potential instances where the Company included the customer's balance in arrears in the allowance for doubtful accounts, but subsequently removed as a result of a customer payment. For example, if a customer had their balance added to the allowance in June 2020, but the customer made a payment in April 2021, the aging reports would not indicate the customer's balance had been included then removed from the allowance for doubtful accounts. Consequently, Staff was unable to confirm the bad debt expense on a monthly basis between July 2019 and December 2020.

Additionally, Staff reviewed the monthly amount credited to customers through the UEX rider. Staff found the monthly UEX rider rates and monthly sales volumes were calculated correctly during the audit period. Staff notes that the Company continued the UEX rider rates through August 2019.

As a consequence of the Company's decision to not recognize bad debt expense after June 2019, and Staff's inability to rely on the post-June 2019 aging reports, Staff cannot provide reasonable assurance regarding the imputed bad debt expense during the period July 2019 through 2020. Given that the monthly bad debt expense incurred is what is included in the UEX balance, the lack

of a bad debt expense, whether actually incurred or imputed by Staff, results in the incremental bad debt included in the UEX balance to be unknown or non-existent. Therefore, Staff recommends that the UEX balance be based on the balance as of June 2019, and include recognition of amounts refunded through the UEX rider for July and August. Staff avers the primary reason for not recognizing post-June 2019 bad debt expense is that the Company did not recognize any bad debt expense.

Finally, Staff confirmed that the Company recognized the adjustment to the UEX balance of \$67,095.37, as ordered by the Commission in the prior UEX audit.¹

Staff's Recommendations

Staff recommends the balance of UEX be based on the balance as of June 2019, plus the amounts refunded through the UEX rider in July and August 2019. Based on this adjustment, Staff calculated the balance to be an over-collection of \$444,657.73, as shown on Attachment A.

Staff recommends that the Company file an application to adjust its UEX rider rate within 30 days of the Commission's Order in this proceeding. Staff recommends the Commission order the Company to resume recognition of bad debt expenses, and to work with Staff prior to the Company's next UEX audit to ensure the aging reports are reliable and the UEX is being tracked accurately on a monthly basis.

¹ See *In the Matter of the Application of the Uncollectible Expense [Rider] of Eastern Natural Gas Company*, Case No. 19-307-GA-UEX, et al., Opinion and Order (October 9, 2019).

Eastern Natural Gas Company
Uncollectible Accounts Expense Rider Reconciliation
Case No. 21-307- GA-UEx
January 1, 2019 Through December 31, 2020

2019

		January	February	March	April	May	June	July	August	September	October	November	December
1	Balance - Beginning of Month	(628,577.45)	(609,145.73)	(556,841.54)	(522,724.67)	(502,398.58)	(478,445.02)	(452,701.91)	(449,966.80)	(444,657.73)	(444,657.73)	(444,657.73)	(444,657.73)
2	Net Bad Debt Expense	(3,474.12)	16,448.05	428.22	(54.15)	14,773.36	20,282.97						
3	Collection Agency - Expenses												
4	Collection Agency - Recovery												
5	Recovery Bad Debts Rider (a)	(22,905.84)	(35,856.14)	(33,688.65)	(20,380.24)	(9,180.20)	(5,460.14)	(2,735.11)	(5,309.07)	-	-	-	-
6	Recovery - Other (b)												
7	Incremental Bad Debt (2)+(3)-[(4)+(5)+(6)]	19,431.72	52,304.19	34,116.87	20,326.09	23,953.56	25,743.11	2,735.11	5,309.07	-	-	-	-
8	Balance Subtotal (1+7)	<u>(609,145.73)</u>	<u>(556,841.54)</u>	<u>(522,724.67)</u>	<u>(502,398.58)</u>	<u>(478,445.02)</u>	<u>(452,701.91)</u>	<u>(449,966.80)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>
9	Carrying Charges [Not Applicable]	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
10	Balance End of Month (8+9)	<u>(609,145.73)</u>	<u>(556,841.54)</u>	<u>(522,724.67)</u>	<u>(502,398.58)</u>	<u>(478,445.02)</u>	<u>(452,701.91)</u>	<u>(449,966.80)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>	<u>(444,657.73)</u>

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