

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

Pike Natural Gas Company

Audit of the Uncollectible Expense Mechanisms
For the Period January 2021 through December 2022

Case Number 23-314-GA-UEX

June 15, 2023

Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), Staff has completed the required audit of the Pike Natural Gas Company's (Pike or Company) uncollectible expense (UEX) rider rates for January 2021 through December 2022. Staff audited the material as set forth in the Commission Entry in Case No. 23-314-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, Pike accurately calculated its UEX rider rates for the period discussed in this report. Staff performed investigations into these specific areas and respectfully submits its findings and recommendations.

A handwritten signature in black ink, reading "Adam Burns". The signature is written in a cursive style with a horizontal line underneath it.

Adam Burns
Accounting and Finance Division
Public Utilities Commission of Ohio

Enclosure
cc: Parties of Record

Pike Natural Gas Company
Uncollectible Expense Rider
Case No. 23-314-GA-UEx

Commission Entry

On February 22, 2023, the Commission authorized Staff to conduct an audit of Pike's UEX account for the rates effective during the period January 1, 2021, through December 31, 2022. 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.

Pike 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, Pike 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 Pike to Utility Pipeline, Ltd. In January 2013, the sale of ownership was completed.

Overview of Company's Bad Debt Policies and Procedures

The Company recognizes the monthly bad debt expenses using the allowance method, specifically the aging of receivables method. Under this approach, the bad debt expense is equal to the change in month ending balance of allowance for doubtful accounts. The Company includes in its allowance for doubtful accounts any customer account receivables with an unpaid balance greater than \$20 that is over 90 days old, and the customer has not made a payment in the past 60 days. The Company records its monthly bad debt expense based on the difference between the current- and prior-month balance in the allowance for doubtful accounts.

According to the Company's bad debt policy, the Company places into final billing customers who have moved out or had gas service shut off for non-payment. These final-billed accounts are given notice to make payment within 30 days of placement into final billing status. If no payment is made within this period, the Company sends the customer a collection letter giving the customer an additional 30 days to make a payment. If after this period elapses, no payment is made or payment arrangement established, the Company transfers this account to bad debt accounts (Bad Debt Accounts). On a quarterly basis, the Company writes off the qualifying Bad Debt Accounts with unpaid balances over \$50 and sends them to a collection agency. The Company does not transfer bankruptcy or deceased accounts to the collection agency, and instead writes off those accounts upon notification of the bankruptcy or death of the client.

Staff's Review

Bad Debt Expense and Write-Offs

Prior to the on-site audit, Staff issued a data request for the Company's 2021 and 2022 Annual Balance Reconciliation (ABR); the billing system summaries of the monthly recoveries from the UEX rider; a copy of the Company's bad debt collection policies and procedures; accounts receivable aging reports; summaries of the accounts written-off annually; documentation from the collection agency listing the accounts written-off and placed with the agency; and a listing of customer payments made to the collection agency or directly to the Company.

To confirm the monthly bad debt expense, Staff reviewed the Company's accounts receivable aging reports (Aging Reports), which lists the accounts included in allowance for doubtful accounts and quantifies the balance. Staff confirmed the ending balance of the allowance for doubtful accounts for each month of the audit period and verified the accuracy of the monthly bad debt expense included in the UEX balance each month.

The Company provided its annual Bad Debt Reports (BDW Reports) for the audit period, which detailed accounts written-off. Additionally, the Company provided support for bankruptcy-related write-offs, which is tracked separately from the BDW Reports. Staff reviewed the documentation supporting the write-offs to ensure the write-offs adhered to the Company's bad debt policy, and the written-off accounts were either placed with the Company's collection agency or were associated with a bankruptcy or deceased account. Staff reviewed the confirmations provided to the Company by the collection agency to verify the Bad Debt Accounts eligible for collections were placed with the collection agency.

During its review, Staff found three instances in which an account was written off not as a result of bankruptcy or death, but not placed with the collection agency. The Company advised the three Bad Debt Accounts were not sent to the collection agency due to the age of the account. Staff reviewed the last payment dates of these accounts and verified the last payment dates were many years ago, with some accounts having a last payment date in 2014. Given the age of the accounts, Staff does not recommend any adjustment to remove these write-offs from the UEX balance; however, Staff notes the Company's bad debt policy does not contain any guidelines for writing off accounts based on the age of the accounts. Without a formal process, the write-off of older accounts appears to be performed on an ad hoc basis, as Staff identified multiple other accounts within in the Aging Reports with last payment dates that were many years ago (including some with last payment dates as far back as 2013) but were not written off during the audit period. Therefore, Staff recommends the Company develop specific procedures and guidelines within its bad debt policy to address the write-off of older accounts not eligible to be placed with a collection agency.

Additionally, during its review of the BDW Reports, Staff found the Company does not separately identify write-offs associated with deceased accounts.¹ Because write-offs of deceased accounts

¹ The Company uses specific journal entry codes for write-offs transferred to the collection agency (BDW), bankruptcy write-offs (BKA), and the write-off of older accounts not eligible to be transferred to the collection agency (WUC).

are not placed with the collection agency, Staff recommends the Company track write-offs of deceased accounts separately from write-offs that are placed with the collection agency to allow for more effective and efficient verification of the transfer of collections-eligible Bad Debt Accounts to the collections agency.

UEX Rider Recoveries and Other Recoveries

Staff reviewed the Company's billing data to verify the monthly amount credited to customers through the UEX rider. Staff found the monthly UEX rider credits included in the ABR correctly reflected the underlying billing data.

The Company provided copies of its annual BDR² Reports, which detail recoveries of Bad Debt Accounts (Other Recoveries) made by the collection agency, less amounts retained by the collection agency for the collection expense and any payments made directly to the Company. Additionally, the Company provided copies of its annual BDA³ Reports detailing the collection agency expenses, which are based on the Company's Collection Services Agreement with the collection agency.⁴

Staff reviewed the BDR Reports to confirm the monthly amount of Other Recoveries were correctly included in the ABR. Additionally, Staff reviewed the BDA Reports to verify the collection agency expenses were accurate in accordance with the Collection Agency Agreement. Staff notes that since the BDR Report details the amount of Other Recoveries net of any collection agency expenses, measuring Other Recoveries based on the BDR Report renders it unnecessary to separately track the monthly collection agency expenses within the UEX calculations in the ABR. For example, if a customer pays the collection agency \$100, the BDR Report would include an entry for \$73 (\$100 less collection agency expense of \$27) to account for the net amount recovered by the Company. By including in the ABR this BDR Report entry of \$73, the collection agency expenses will be automatically included in the UEX calculations.

Calculation of UEX Balance in the ABR

As part of its review of the Company's ABR, Staff identified bad debt adjustment entries of \$1,886 and \$346 in February 2021 and December 2022, respectively. The Company explained these were entries made in situations which a customer previously included in Bad Debt Accounts reactivated their account, and the Company transferred the customer's prior bad debt to the new account. The Company included these entries as additions to bad debt expense in its ABR calculations; however, Staff recommends they be removed from the ABR calculations as they represent bad debt expenses already recognized and accounted for in prior UEX periods. Staff avers the inclusion of these bad debt adjustment entries would result in double-recovery of bad debt expenses. Staff reviewed the payment history for these customers and verified each of the customers paid off their prior bad debt balance within the month of having their accounts reactivated. All of the payments were correctly included in Other Recoveries, except for one payment of \$49.23 made in December 2022.

² BDR is the Company's journal entry code for Bad Debt Recovery.

³ BDA is the Company's journal entry code for Bad Debt – Agency.

⁴ The collection expense is based on the amount recovered by the agency, and is 27% for "First Placements", and 37% for "Legal/Seconds".

Staff recommends this payment of \$49.23 be reflected in the ABR within Other Recoveries for December 2022.

Finally, Staff reviewed an adjustment the Company included in its ABR which Staff had recommended in Case No. 22-314-GA-UEX (2022 UEX Case). In that case, Staff recommended an adjustment to the Company's proposed rider rate because the February 2022 UEX rate used in the Company's calculations did not match the tariff for that month.⁵ Specifically, the calculation used the previous UEX rate of (\$0.0526) per Mcf rather than the tariff rate of (\$0.0690) per Mcf. Staff assumed the incorrect UEX rate for February 2022 was simply a typographical error, and recommended an adjustment of \$2,773, such that the UEX rider recoveries for February 2022 reflected the effective rate in the tariffs.⁶ As part of the current audit, Staff determined the UEX rider rate was not implemented in the Company's billing system until March 2022. As a result, Staff's recommendation from the 2022 UEX Case was not necessary, as there was no typographical error since the Company's calculations correctly reflected the UEX rider rate in effect for February 2022. Ultimately, this issue was caused by the Company not updating its billing system in a timely manner to charge the correct UEX rate in the month the new rate became effective. Given the prior adjustment is no longer necessary, Staff recommends the elimination of this adjustment from the ABR balance adjustment in February 2022; however, Staff does recommend the Company take steps to ensure the UEX rate updates are implemented in its billing system on a timely basis, so the amounts charged to customers correctly reflect the tariffs in effect.

Staff's Recommendations

Staff recommends the removal of the bad debt adjustment entries of \$1,886 and \$346 from February 2021 and December 2022, respectively. Additionally, Staff recommends inclusion in Other Recoveries for December 2022, the payment of \$49 made by the customer to pay off their prior bad debt balance. Finally, Staff recommends the elimination of the adjustment of \$2,773 for February 2022, which was recommended in the 2022 UEX Case. Based on all these adjustments, Staff recommends the December 2022 ending UEX balance to be an under-collection of \$13,134.57, as shown on Attachments A and B.

Additionally, Staff recommends the Company update its bad debt policies and procedures to address the issues identified during Staff's review. First, Staff recommends the Company develop a formal policy and associated procedures for writing off older bad debt accounts deemed to be ineligible for placement with the collection agency. Second, Staff recommends the Company take steps to track write-offs associated with deceased accounts to differentiate these write-offs from the other types of write-offs. Staff acknowledges the Company's accounting system may not allow for a specific "deceased account write-off" journal entry code, so if specific coding of journal

⁵ In Case No. 21-314-GA-UEX, the Company filed an application to update its UEX rate from (\$0.0526) per Mcf to (\$0.0690) per Mcf. The Commission approved this rate, and the Company filed the updated tariffs with an effective date of January 26, 2022. In the 2022 UEX Case, the Company requested to update the then-effective rate of (\$0.0690).

⁶ *In the Matter of the Application of Pike Natural Gas Company for Approval of an Adjustment to its Uncollectible Expense Rate Rider*, Case No. 22-314-GA-UEX, Staff Review and Recommendation (July 5, 2022).

entries is not possible, the Company should maintain a listing of the deceased account write-offs in a separate file that can be provided to Staff during future UEX audits.

Staff also recommends the Company take steps to ensure future UEX rider rate updates are implemented in its billing system in a timely manner.

Finally, Staff recommends that Pike file an application to adjust its UEX rider rate within 30 days of the Commission's Order in this proceeding.

Attachment A

**Pike Natural Gas Company
Uncollectible Accounts Expense Rider Reconciliation
Case No. 23-314-GA-UEx**

2021

Line		Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
1	Balance - Beginning of Month	\$ (86,962)	\$ (73,896)	\$ (55,518)	\$ (47,636)	\$ (54,099)	\$ (49,090)	\$ (44,177)	\$ (43,148)	\$ (39,922)	\$ (38,679)	\$ (29,943)	\$ (33,727)
2													
3	Recovery - UEX Rider (a)	(9,474)	(11,160)	(7,260)	(3,666)	(2,415)	(944)	(762)	(677)	(855)	(2,059)	(5,007)	(6,956)
4													
5	Bad debt Expense (b)	3,852	(17,368)	1,370	(9,653)	3,366	1,635	878	685	585	5,977	(8,102)	19,504
6													
7	Write-Offs (c)	-	26,656	77	-	321	2,374	-	2,068	-	1,352	-	-
8													
9	Collection Recovery (d)	259	2,070	825	476	1,094	40	611	203	197	652	689	229
10													
11	PUCO Balance Adjustment (e)	-	-	-	-	-	-	-	-	-	-	-	-
12													
13	Incremental Bad Debt (f)	13,067	18,378	7,882	(6,463)	5,009	4,913	1,029	3,227	1,243	8,736	(3,784)	26,231
14													
15	Balance - End of Month (1) + (13)	<u>\$ (73,896)</u>	<u>\$ (55,518)</u>	<u>\$ (47,636)</u>	<u>\$ (54,099)</u>	<u>\$ (49,090)</u>	<u>\$ (44,177)</u>	<u>\$ (43,148)</u>	<u>\$ (39,922)</u>	<u>\$ (38,679)</u>	<u>\$ (29,943)</u>	<u>\$ (33,727)</u>	<u>\$ (7,496)</u>

(a) per Company's billing system (Code Summary reports)

(b) Monthly change in balance of accounts more than 90 days past due

(c) Direct write-offs, which include receivables transferred to collection agency, bankruptcy write-offs, and write-offs of deceased accounts (BDW, BKA, WUC entries)

(d) Collection recoveries are amounts remitted to Company from collection agency (BDR entries), which is total recovered by collection agency, less amounts retained by the agency as collection expenses

(e) Adjustments from prior UEX cases, if necessary

(f) (-1*(3))+(5)+(7)-(9)+(11)

Attachment B

**Pike Natural Gas Company
Uncollectible Accounts Expense Rider Reconciliation
Case No. 23-314-GA-UEx**

2022

Line		Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
1	Balance - Beginning of Month	\$ (7,496)	\$ (2,939)	\$ 4,718	\$ 25,544	\$ 41,799	\$ 54,125	\$ 55,032	\$ 55,802	\$ 47,012	\$ 29,237	\$ 30,817	\$ 16,536
2													
3	Recovery - UEX Rider (a)	(9,719)	(8,894)	(8,236)	(5,461)	(1,795)	(1,007)	683	840	861	3,206	5,801	10,296
4													
5	Bad debt Expense (b)	(5,222)	(817)	15,587	9,371	10,897	449	(8,264)	(7,897)	(16,730)	(2,678)	(8,903)	7,406
6													
7	Write-Offs (c)	534	-	-	1,636	-	-	10,331	-	-	7,797	799	-
8													
9	Collection Recovery (d)	474	420	2,996	214	366	549	613	53	184	333	376	512
10													
11	PUCO Balance Adjustment (e)	-	-	-	-	-	-	-	-	-	-	-	-
12													
13	Incremental Bad Debt (f)	4,557	7,657	20,827	16,255	12,326	907	771	(8,791)	(17,775)	1,580	(14,281)	(3,401)
14													
15	Balance - End of Month (1) + (13)	\$ (2,939)	\$ 4,718	\$ 25,544	\$ 41,799	\$ 54,125	\$ 55,032	\$ 55,802	\$ 47,012	\$ 29,237	\$ 30,817	\$ 16,536	\$ 13,135

(a) per Company's billing system (Code Summary reports)

(b) Monthly change in balance of accounts more than 90 days past due

(c) Direct write-offs, which include receivables transferred to collection agency, bankruptcy write-offs, and write-offs of deceased accounts (BDW, BKA, WUC entries)

(d) Collection recoveries are amounts remitted to Company from collection agency (BDR entries), which is total recovered by collection agency, less amounts retained by the agency as collection expenses

(e) Adjustments from prior UEX cases, if necessary

(f) $(-1 \times (3)) + (5) + (7) - (9) + (11)$

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