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To: Docketing Division

From: Michael Castle *pend*

PUCO

Date: March 9, 2004

Subject: Staff's report in Case No. 03-2573-GA-ATA

Attached hereto is the Staff's summary, comments and recommendation in the matter of the application of The East Ohio Gas Company, d.b.a. Dominion East Ohio to implement an uncollectible accounts expense recovery mechanism, Case No. 03-2573-GA-ATA.

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In the matter of the application of)
The East Ohio Gas Company, d.b.a.)
Dominion East Ohio for approval of) Case No. 03-2573-GA-ATA
proposed tariff revisions to recover)
uncollectible expenses.)

STAFF SUMMARY, COMMENTS AND RECOMMENDATION

In its Finding and Order of December 17, 2003 in Case No. 03-1127-GA-UNC (F&O), the Commission approved in concept, with modifications and clarifications, an application brought by several gas companies seeking authority to establish a bad debt expense recovery mechanism. The applicant companies were authorized to defer for subsequent recovery the incremental uncollectible accounts expense above the level in their rates. Companies were to make tariff amendment filings in separate dockets to implement their adjustment mechanisms. On December 31, 2003, The East Ohio Gas Company, d.b.a. Dominion East Ohio (DEO) filed its application to implement the Commission authorized bad debt tracker and recovery mechanism.

Staff has reviewed the tariff revisions for compliance with the Commission's Finding and Order and herewith submits its summary, comments and recommendations.

Application

DEO has filed an application to establish its first bad debt rider at the same rate level as that which they propose to remove from base rates, \$.0592 per Mcf in the East Ohio Gas service area, and \$.0774 per Mcf in the West Ohio Gas service area. The reason for the differing rates is due to a merger that combined East Ohio Gas and West Ohio Gas, but maintained the existing distinct base rates until the next base rate case. As yet, that case to establish a uniform rate for both service areas has not occurred. The bad debt rider would be applicable to all customers paying the PIP rider.

DEO's instant application contains a gross-up for gross receipts tax for both the reduction and the rider

Additionally, the application revises availability/eligibility requirements for customer choice program services to indicate that the customer may have broken a prior payment plan once in the preceding 12 months if that customer is placed in a new payment plan and remains current. Previously such customer would not be eligible if they were delinquent on any payment plan.

The proposed tariffs contain language that establishes plus or minus 10% as the parameter for requiring that an adjustment in the rider be made.

Comments

Staff attempted to trace the data utilized to calculate the proposed reductions and riders to the authorized revenue requirement in Case No. 93-2006-GA-AIR for the East Ohio Gas service area, and Case No. 82-1458-GA-AIR for the West Ohio Gas service area. Staff found that DEO had utilized data from the staff report rather than data which was approved by the Commission. The effective gross receipts tax rates are those within DEO's tariffs.

In the current application, DEO proposes neither carrying charges, nor an amortization of the incremental bad debt deferred in Case No. 01-2592-GA-UNC. Pursuant to the Commission decision in 03-1127-GA-UNC, both are allowed, but not required. Both will most likely be issues in future bad debt rider applications and addressed at that time.

The F&O requires companies to file a report each May that identifies the amounts recovered, deferred and amortized. This report may be contained in an application to change the bad debt rider rate, but must be provided separately if no adjustment to the rider rate is proposed.

The F&O further indicated Commission expectation that each companies efforts be addressed while the bad debt adjustment mechanism is being established and thereafter. The Commission noted that would appropriately be done within the context of a gas cost recovery (GCR) audit docket. Financial GCR audits occur annually.

Staff Recommendations

Staff and DEO discussed reliance on data from the staff reports versus that supporting the rate orders. DEO agrees with Staff that the staff reports are preliminary in nature and that the rate orders (and their supporting work papers) are what specify what level of expense is included within rates. Staff has recalculated the reductions/riders utilizing the appropriate rate order supporting documents and recommends \$.0601 per Mcf in the East Ohio Gas service area, as shown on Attachment A, and \$.0782 in the West Ohio Gas service area as shown on Attachment B. DEO accepted Staff's calculation and has indicated that they will file these reduction/rider rates when final tariffs are submitted.

Regarding the issue of recovery of the gross receipts tax assessed upon the bad debt rider revenue, Staff would prefer and proposes that such recovery be treated consistently from company to company. We believe it is reasonable to allow the associated excise tax recovery to fluctuate along with the bad debt rider revenue on which it will be based, and therefore, either include it within the bad debt rider through a gross-up, or subject bad debt rider revenue collected to a

gross receipts excise tax rider. DEO's current gross receipts excise tax rider only applies to gas cost revenues and the current application proposes to recover bad debt rider revenue related gross receipts tax through a gross-up. Neither the gross receipts excise tax expense nor the recovery should be commingled with the bad debt balances. Ability to distinguish between the two will be paramount in future balance verifications, audits and rider adjustments.

In the Staff's recalculated rider for the East Ohio Gas service area of \$.0601 per Mcf, \$.0028 per Mcf (or 4.659% of bad debt rider revenue) is related to recovery of Columbia's excise tax liability on the rider revenue. In the Staff's recalculated rider for the West Ohio Gas service area of \$.0782 per Mcf, \$.0036 per Mcf (or 4.603% of bad debt rider revenue) is related to recovery of excise tax liability on the rider revenue.

We note that should a future case involve a revision to DEO's effective gross receipts excise tax rate or create a gross receipts excise tax rider that is to apply to all revenues that DEO receives, the gross receipts excise tax gross-up portion of the bad debt rider would also need to be revised. Required adjustments to rates such as this could be avoided if all gross receipts excise tax expense was recovered through a rider applicable to all revenue rather than recovering a portion through base rates and a portion through riders. Currently, gross receipts excise tax recovery is not consistent from company to company. Staff recommends a future where consistency in treatment and ease in implementing rate revisions is achieved.

Due to the self-correcting nature of this recovery mechanism, Staff believes the proposed parameters of plus or minus 10% appears reasonable and has no grounds to oppose such a parameter.

Pursuant to the 03-1127-GA-UNC decision, upon Commission approval of the rider DEO will have 60 days within which it should provide written description of its credit and collection policies and procedures to the Staff and the Office of Consumer's Counsel. Staff recommends that such written description be filed within this docket. Subsequent to DEO's policy and procedures filing, Staff and/or the Office of Consumer's Counsel will meet with DEO to discuss appropriate improvements or modifications, as determined necessary.

Regarding the annual reporting requirements placed on companies with bad debt riders, in addition to what is required by the F&O (amounts recovered, deferred, and amortized), we recommend that the annual reports reconcile unrecovered balances at the beginning and end of each month throughout the year. We believe that could easily be accomplished by providing the following information in a spreadsheet format similar to that provided on Attachment C, hereto.

- Unrecovered Balance Beginning of Period
- Plus: Current Period Write-offs of Bad Debts
- Less: Current Period Base Rate and Rider Recoveries
- Less: Current Period Customer Recoveries on Accounts Written Off
- Less: Current Period Discounts on Supplier Receivable Purchases
- Plus or Less: Other Adjustments
- Plus or Less: Current Period Carrying Charges
- Unrecovered Balance End of Period

Supporting calculations/additional documentation and/or disclosures may be required and will be requested as necessary.

We presently envision the following questions, issues or topic areas and recommend they be addressed in subsequent financial GCR audit reports, as appropriate.

- Discussion of and determination of appropriateness of accounting for bad debts, carrying charges and related excise taxes.
- Determination that recoveries and deferrals are related to proper periods and customer class
- Determination that deferred balance is accurate and that a separation has been maintained between bad debts and the associated excise taxes
- Determination of proper carrying charge base, rate and balance

As discussed and modified above, Staff recommends approval of DEO's reduction/rider resulting in a \$.0601 per Mcf reduction to base rates and implementation of a \$.0601 per Mcf bad debt rider for the East Ohio Gas service area, and a \$.0782 per Mcf reduction to base rates and implementation of a \$.0782 per Mcf bad debt rider for the West Ohio Gas service area.

ATTACHMENT A**EAST OHIO GAS**
Uncollectible Accounts Expense

(1) Test Year Non-PIP Uncollectible Expense (a)	10,740,559
(2) Proforma Increase Uncollectible Expense (b)	<u>651,282</u>
(3) Total Proforma Uncollectible Expense (1) + (2)	11,391,841
(4) Gross Receipts Tax Rider Rate (c)	4.8957%
(5) Total Base Rate Elimination (3) + [(3) x (4)]	11,949,551
(6) Test Year Mcf Volumes (d)	198,740,373
(7) Uncollectible Accounts Elimination (5) / (6)	<u>\$0.0601</u>

- (a) Schedule C-3.7, Combined River & East Ohio Stipulation Workpapers, Case No. 93-2006-GA-AIR
(b) Schedules C-1 and C-3.7, Combined River & East Ohio Stipulation Workpapers, Case No. 93-2006-GA-AIR
(c) Tariff Second Revised Sheet F-GRTR 1
(d) Schedules C-3.2 River & C-3.2 East Ohio, Stipulation Workpapers, Case No. 93-2006-GA-AIR

ATTACHMENT B**WEST OHIO GAS**
Uncollectible Accounts Expense

(1) Test Year Non-PIP Uncollectible Expense (a)	787,235
(2) Proforma Increase Uncollectible Expense (b)	<u>25,873</u>
(3) Total Proforma Uncollectible Expense (1) + (2)	813,108
(4) Gross Receipts Tax Rider Rate (c)	4.8651%
(5) Total Base Rate Elimination (3) + [(3) x (4)]	852,666
(6) Test Year Mcf Volumes (d)	10,906,000
(7) Uncollectible Accounts Elimination (5) / (6)	<u>\$0.0782</u>

- (a) Schedule 3.5, Stipulation Workpapers, Case No. 82-1458-GA-AIR
- (b) Schedules 1 and 3.5, Stipulation Workpapers, Case No. 82-1458-GA-AIR
- (c) Tariff Original Sheet F-GRTR West Ohio 1
- (d) Revenue Verification, Case No. 82-1458-GA-AIR

BAD DEBT RIDER

[illegible]

(a)	Excludes any deferred balance related to disconnection moratorium	
(b)	Calculated: actual consumption times authorized rider rate	
(c)	Consists of customer payments, agency assistance, supplier discounts	
(d)	Enter net monthly carrying charge rate	0.00% 0.00%