

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

FINDING AND ORDER

The Commission finds:

- (1) On December 17, 2003, the Commission issued its Finding and Order in *In the Matter of the Joint Application of The East Ohio Gas Company d/b/a Dominion East Ohio, Columbia Gas of Ohio, Inc., Vectren Energy Delivery of Ohio, Northeast Ohio Natural Gas Corp., and Oxford Natural Gas Company for Approval of an Adjustment Mechanism to Recover Uncollectible Expenses*, Case No. 03-1127-GA-UNC (03-1127). In that order, the Commission stated that, 60 months after implementation of its order, it would undertake an investigation of the uncollectible expense (UEX) recovery mechanism that was approved in that proceeding. It noted that the investigation would identify amounts recovered pursuant to the mechanism, address the impact of any changes to companies' credit and collection policies and procedures, and include staff recommendations.
- (2) On February 5, 2009, in the above-captioned proceeding, the Commission's staff filed a report on its investigation of the UEX recovery mechanisms (Staff Report).
- (3) By entry issued February 25, 2009, the attorney examiner found that comments relating to the Staff Report should be allowed and directed interested persons to file comments and reply comments in this docket, no later than March 16, 2009, and March 26, 2009.
- (4) By examiner entry issued March 23, 2009, the Office of the Ohio Consumers' Counsel (OCC) was granted an extension of time, until March 23, 2009, to file its comments. In addition, the examiner extended the deadline for the filing of reply comments by all parties to April 2, 2009.
- (5) Initial comments were filed in this matter by: Waterville Gas & Oil Company (Waterville); The East Ohio Gas Company d/b/a Dominion East Ohio (Dominion); Vectren Energy Delivery of

Ohio, Inc. (Vectren); The Ohio Gas Company (Ohio Gas); Northeast Ohio Natural Gas Corporation (Northeast); and OCC. Reply comments were filed by: the Ohio Gas Marketers Group (OGMG); Vectren and Ohio Gas (jointly referred to as Vectren/Ohio Gas); Dominion; Northeast, Orwell Natural Gas Company (Orwell), and Waterville (jointly referred to as Northeast/Orwell/Waterville); Columbia Gas of Ohio, Inc. (Columbia); and OCC.

Staff Report Summary

- (6) In the February 5, 2009, Staff Report, staff reviewed statistics related to the UEX riders of Dominion, Columbia, Vectren, Northeast, Ohio Gas, Eastern Natural Gas Company (Eastern), and Pike Natural Gas Company (Pike) (when referencing the Staff Report, these entities will be jointly referred to herein as the companies). According to the staff, for each of the companies, the data showed a marked increase in the incremental uncollectibles beginning in 2000, which is the year that natural gas prices began to spike significantly, as compared to historical levels.

Staff evaluated whether the existence of the UEX riders reduced the incentive for the companies to collect past due amounts from the customers. The first measure the staff considered in its evaluation was the number of disconnections for nonpayment, both before and after the UEX riders were implemented. Staff states that, generally, this evaluation revealed that the number of disconnections for nonpayment increased after the UEX riders were implemented. However, staff notes that this trend would be expected because an account must be disconnected in order for the unrecovered amount to be included in the rider. Staff also notes that the data shows that Dominion experienced an initial decline in disconnections after the implementation of the rider; however, the number of disconnections now appears to be more consistent with the levels that occurred prior to the implementation of the UEX rider. In response to staff's observation, in its comments, Dominion points out that there is a potential for inconsistency between how the different companies quantify their collections and Dominion is uncertain whether staff received comparable customer collection information from the companies (Dominion at 7).

The second measure evaluated by the staff was the amount of recoveries from customers after they had been disconnected. Staff found that the customer recoveries increased after the implementation of the riders. Staff submits that this trend was expected because, with an increase in disconnections, customers will make payment arrangements in order to be reconnected. Finally, staff examined the ratios of annual incremental uncollectibles incurred to the recoveries from customers in that same year. According to staff, this ratio increased after the riders were implemented, which staff believes indicates that the UEX riders do not appear to have diminished the companies' efforts to collect arrearages. Staff also notes that the only anomaly in the data was a decline in Dominion's 2006 ratio. In response, Dominion notes that, when the energy choice receivable discount is taken into consideration, the 2006 anomaly disappears (Dominion at 9).

Staff Recommendations and Commenter Responses

- (7) After considering its findings in the investigation, staff set forth two recommendations. First, staff recommends that the UEX riders be continued for a period of time not to exceed five years, without the necessity for a subsequent staff investigation and report.
- (8) With regard to staff's first recommendation, Dominion and OGMG state that they support this recommendation (Dominion at 1; OGMG at 5). Dominion asserts that the factors cited by the Commission when it initially approved the UEX riders, including volatile gas prices and difficult economic conditions, have an even greater impact today (Dominion at 1-2). Conversely, OCC states that the Commission should discontinue permitting automatic adjustments to UEX riders. According to OCC, permitting the companies to continue automatic adjustments to their UEX riders permits them to increase rates without the safeguards of the rate case process. In the alternative, OCC reiterates the proposal it made in 03-1127 stating that the Commission should discontinue allowing the companies to control the timing of the rider filings. (OCC at 3-4). In further support of its position, OCC submits that the staff, in its report, failed to: review and evaluate the impact and implications of the UEX rider rate on customers; analyze or make any recommendation regarding the companies' credit

and collection policies, practices, and performance; and define the regulatory oversight process going forward (OCC at 6-7). OGMG and Northeast/Orwell/Waterville disagree with OCC's criticisms of the Staff Report (OGMG Reply at 3-4; Northeast/Orwell/Waterville Reply at 1-3). Vectren/Ohio Gas, Columbia, and Dominion likewise dispute OCC's statements pointing out, among other things, that Section 4929.11, Revised Code, permits automatic adjustment mechanisms such as the UEX riders (Vectren/Ohio Gas Reply at 4-6; Columbia Reply at 2-7; Dominion Reply at 2-6).

- (9) With regard to staff's first recommendation, upon consideration of the comments, the Commission believes that the companies should be permitted to continue their UEX riders for a period of time; however, we believe that we need more information concerning the effectiveness of the companies' credit and collection policies, practices, and performance in minimizing the companies' uncollectible expenses. Therefore, at this time, we are not willing to say that five years would be an appropriate period of time for the continuation of the UEX riders. Until we have further information, we are also not apt to foreclose the possibility that staff may need to provide a subsequent report. Accordingly, the Commission finds that the UEX rider mechanisms employed by the companies and the processes that have been established by the Commission for the review of those riders will continue, until such time as we order otherwise.
- (10) Staff's second recommendation is that the companies be required to file annual reports no later than January 31 of each year. As suggested by staff, the reports filed by each company would detail: the UEX balance at the beginning of the year; additions to the UEX balance, including the vintage of the additions; and credits to the UEX balance.
- (11) With regard to staff's second recommendation, Dominion, Waterville, and Northeast have no objection to this requirement or to the information that must be contained in the report (Dominion at 1; Waterville at 1; Northeast at 1). Vectren states that the information sought by staff for the annual reports would pose notable human resources and information technology challenges for the company; thus, Vectren requests that the companies be permitted to make any necessary

information technology changes resulting from this docket at the same time they are required to implement any programming changes needed to comply with any rule modifications the Commission mandates in other dockets (Vectren at 2).

Waterville and Northeast recommend that the deadline to submit the report be moved to March 30 of each year, rather than January 31, in order to allow sufficient time for the companies to collect and organize the requested data (Waterville at 1; Northeast at 1). Vectren and Ohio Gas point out that, in accordance with the Commission's order in 03-1127, each company files a report on its UEX rider in May of each year. Thus, Vectren and Ohio Gas submit that the annual report recommended by staff in this case should be filed along with each company's UEX rider report in May. (Vectren at 2-3; Ohio Gas at 2-3). Dominion agrees that the timing of the annual reports, as proposed by staff, should be revised (Dominion Reply at 7).

Ohio Gas requests that the Commission grant a limited exemption from the additional reporting requirements recommended by staff in this docket to smaller local distribution companies, like Ohio Gas. According to Ohio Gas, granting this exemption would achieve the proper balance between the regulatory objectives and the magnitude of the burdens imposed by the additional requirements on the small companies. (Ohio Gas 3-4).

- (12) With regard to staff's second recommendation, the Commission agrees that it is appropriate for all companies that employ a UEX rider mechanism to file annual reports which set forth sufficient information for the Commission's review and consideration of the riders. At this time, the Commission is not willing to say that this reporting requirement should be different for smaller gas companies. Until we have a complete picture of the UEX riders and their effectiveness in regards to the companies' credit and collection policies, practices, and performance, we believe that all companies employing UEX riders should submit the necessary information. We do, however, agree with the commenters' proposal that the filing of the reports by the companies should coincide with the filing of the UEX reports that are due in May of each year. Therefore,

the Commission finds that each company's UEX rider report that it files in May of each year should include the following information: the UEX balance at the beginning of the reporting year; additions to the UEX balance, including the vintage of the additions during the calendar year; and credits to the UEX balance during the calendar year.

Future Consideration of the UEX mechanism

- (13) The Commission believes that the Staff Report and the comments submitted thus far in this docket represent a step forward in our consideration of the UEX rider mechanisms. However, the Commission also believes that, in order to fully evaluate and measure what effect, if any, these mechanisms have on the companies' recovery of uncollectibles, we must have a better understanding of the companies' credit and collection policies, practices, and performance. From there, we believe it is essential that we develop benchmarks that will enable the Commission to ascertain and monitor the effectiveness of the companies' collection policies, practices, and performance in minimizing the companies' uncollectible expenses.
- (14) To assist the Commission with the evaluation of the companies' collection policies, practices, and performance, the Commission will issue the request for proposal (RFP) for consulting services attached to this entry. Our intention is to select a consultant to: audit, evaluate, and recommend improvements in the collection policies, practices, and performance of the four largest natural gas companies, Vectren, Dominion, Duke Energy Ohio (Duke), and Columbia; evaluate whether these four companies' collection practices and polices are effective in minimizing uncollectible expense; ascertain benchmarks to be used by the Commission to monitor the effectiveness of all Ohio natural gas companies' collection policies, practices, and performance; and recommend "best practices" to be employed by natural gas companies in the state of Ohio to minimize uncollectible expense.
- (15) The attached RFP should be distributed immediately to potential proposers. Proposals will be due by September 18, 2009. The selection criteria to be used by the Commission to determine the selection of the consultant shall be the technical

and management capabilities of each firm, as well as the overall cost of each bid.

- (16) Vectren, Dominion, Duke, and Columbia shall directly contract for and bear a share of the cost of the consulting services of the contractor chosen by the Commission. Each company's share of the cost of the consulting services will be proportionate to the number of customers served by the company in the state of Ohio. Costs expended for these services may be recovered by the companies through their UEX riders.
- (17) The Commission shall select and solely direct the work of the consultant. Staff will review and approve payment invoices submitted by the consultant.
- (18) The consultant shall deliver its report to the Commission within six months from the date the RFP is awarded. Once the consultant's report is filed, the Commission will determine what further process should be followed in this case.
- (19) The consultant shall perform its audit and investigation as an independent contractor. Any conclusions, results, or recommendations formulated by the consultant may be examined by any participant to this proceeding. Further, it shall be understood that the Commission and/or its staff shall not be liable for any acts committed by the consultant or its agents in the preparation and presentation of the report.
- (20) The consultant will execute its duties pursuant to the Commission's statutory authority to investigate and acquire records, contracts, reports, and other documentation under Sections 4903.02, 4903.03, 4905.06, 4905.15, and 4905.16, Revised Code. The consultant is subject to the Commission's statutory duty under Section 4901.16, Revised Code, which states:

Except in his report to the public utilities commission or when called on to testify in any court or proceeding of the public utilities commission, no employee or agent referred to in section 4905.13 of the Revised Code shall divulge any information acquired by him in respect to the transaction, property, or business of any public utility, while acting or claiming to act as such employee or agent. Whoever violates this section

shall be disqualified from acting as agent, or acting in any other capacity under the appointment or employment of the commission.

- (21) Once disclosure is permitted by Section 4901.16, Revised Code, the following process applies to the release of any document or information marked as confidential. Three days' prior notice of intent to disclose shall be provided to the party claiming confidentiality. Three days after such notice, staff or the consultant may disclose or otherwise make use of such documents or information for any lawful purpose, unless the Commission is moved for a protective order pertaining to such documents or information within the three-day notice period. The three-day notice period will be computed according to Rule 4901-1-07, Ohio Administrative Code.
- (22) Upon request of the consultant or Staff, each company being audited shall provide any and all documents or information requested. The company may conspicuously mark such documents or information "confidential." In no event, however, shall the company refuse or delay in providing such documents or information.

It is, therefore,

ORDERED, That, in accordance with finding (9), the UEX rider mechanisms continue, until such time as the Commission orders otherwise. It is, further,

ORDERED, That each company that files a UEX rider report in May of each year include in its report the information set forth in finding (12). It is, further,

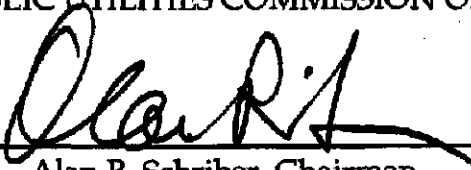
ORDERED, That the RFP attached to this entry be issued and the proposals in response to the RFP be due by September 18, 2009. It is, further,

ORDERED, That, in accordance with finding (16), Vectren, Dominion, Duke, and Columbia bear the cost of the consulting services of the contractor chosen by the Commission. It is, further,

ORDERED, That the natural gas companies and the auditors shall observe the requirements set forth herein. It is, further,

ORDERED, That a copy of this finding and order be served upon all natural gas companies in the state of Ohio and all parties of record in this proceeding.

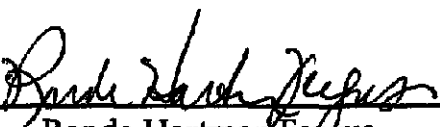
THE PUBLIC UTILITIES COMMISSION OF OHIO



Alan R. Schriber, Chairman

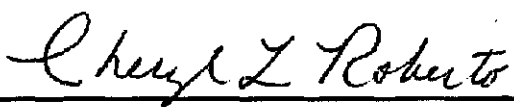


Paul A. Centolella



Ronda Hartman Fergus

Valerie A. Lemmie

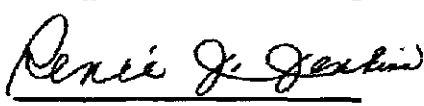


Cheryl L. Roberto

CMTP/vrm

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Renee J. Jenkins
Secretary