



Internal Audit Services

Rider Uncollectible Expense
Adjustment – Compliance
with Illinois Commerce
Commission Audit
Requirements
(Audit #2011-1021)

August 31, 2011

[Handwritten signatures and dates]
8/31/2011
8/31/11
8/31/11
8/31/11

Distribution

Issued To:	Valerie H. Grace	Manager, Gas Regulatory Services, The Peoples Gas Light and Coke Company (“PGL”) & North Shore Gas Company (“NSG”)
	Christine M. Gregor	Director, Operations Accounting PGL & NSG
	Mary P. Klyasheff	Senior Counsel
Copies to:	Thomas Aridas	Director, Gas Regulatory Policy
	Mary J. Boettcher	Vice President, Customer Relations
	Lawrence T. Borgard	President & Chief Operating Officer, Utilities
	Jodi Caro	Vice President, Legal Services
	Willard S. Evans, Jr.	President, PGL & NSG
	Sara Hurley	Director, Compliance
	Joseph P. O’Leary	Senior Vice President & Chief Financial Officer
	James F. Schott	Vice President, External Affairs
	Charles A. Schrock	Chairman, President & Chief Executive Officer
	Barth J. Wolf	Vice President, Chief Legal Officer & Secretary
	Brian M. Douce	Audit Senior Manager, Deloitte & Touche, LLP
Audit Team:	Cody M. Craig	Staff Auditor, Internal Audit Services – Lead
	Kathy C. Bolbot	Staff Auditor, Internal Audit Services
	Cara J. Newman	Staff Auditor, Internal Audit Services
	Michael T. Rosol	Supervisor, Internal Audit Services
	Polly M. Eldringhoff	Manager, Internal Audit Services

Table of Contents

Executive Summary	3
Detailed Report:	
Background	4
Objectives and Scope	4
Conclusion	5
Observations, Recommendations and Action Plans	5-6

Executive Summary

Audit Summary:

On February 23, 2010, the Illinois Commerce Commission (“ICC”) approved the Rider Uncollectible Expense Adjustment (“Rider UEA”) for North Shore Gas Company (“NSG”) and The Peoples Gas Light and Coke Company (“PGL”) (collectively referred to as “Utilities”). The purpose of Rider UEA is to provide monthly incremental adjustments to customer bills for any over- or under-recoveries of the Utilities’ actual Uncollectible Accounts Expense amounts for a reporting year.

The objective of this audit was to verify the Utilities’ compliance with Rider UEA as required in the audit steps defined in the rider. The scope of our audit included the Utilities’ adjustments submitted to the ICC for 2008 and 2009, which applied to customers’ bills for the period of April 2010 through May 2011.

Conclusion:

Based on our review, we determined the calculations of the adjustments were accurate, in accordance with Rider UEA, properly billed to customers, and properly recorded in the appropriate General Ledger accounts. In addition, we verified the adjustments recovered through Rider UEA were not recovered through other provisions of the rate schedule and Uncollectible Costs in Account 904 were properly reported in Form 21.

We performed the audit under the guidance of the *International Standards for the Professional Practice of Internal Auditing*.

Background

On February 2, 2010, the Illinois Commerce Commission (“ICC”) approved the Rider Uncollectible Expense Adjustment (“Rider UEA”) for North Shore Gas Company (“NSG”) and The Peoples Gas Light and Coke Company (“PGL”) (collectively referred to as “Utilities”). The purpose of Rider UEA is to provide for monthly incremental adjustments (“adjustments”) to customer bills for any over- or under-recoveries of the Utilities’ actual Uncollectible Accounts Expense amounts for a reporting year. The Utilities base these adjustments on the incremental difference between the actual Uncollectible Accounts Expense amounts reported on the Utilities’ Form 21 report to the ICC (Annual Report of Electric Utilities Licensees and/or Natural Gas Utilities) and the ICC approved Uncollectible Accounts Expense amounts included in the Utilities’ base rates. These adjustments apply to customer bills based on service type: delivery service (“IDUA”), gas supply service (“ISUA”), or transportation service (“ITUA”). Rider UEA applies to Service Classifications No. 1 (Small Residential Service), No. 2 (General Service), and No. 3 (Large Volume Demand Service) for NSG. Rider UEA applies to Service Classifications No. 1, No. 2, No. 4 (Large Volume Demand Service), and No. 8 (Compressed Natural Gas Service) for PGL.

On March 18 and May 19 of 2010, the Utilities filed Rider UEA Uncollectible Expense Adjustments with the ICC in accordance with Rider UEA provisions for their 2008 and 2009 reporting years, respectively. In April 2010, the Utilities started including these adjustments on customer bills. The adjustments related to the following customer billing periods:

- 2008 adjustments - April 1, 2010 to December 31, 2010, and
- 2009 adjustments - June 1, 2010 to May 31, 2011

Per the provisions of Rider UEA, each of the Utilities are required to file an annual petition with the ICC by August 31 seeking initiation of an annual review to reconcile all uncollectible amounts included in rates with the actual uncollectible amount for the reporting year. In addition, each of the Utilities is required to submit an internal audit to the ICC by August 31 of each year. The purpose of the audit, as defined by the audit provision in Rider UEA, is to determine if the adjustments calculated under Rider UEA and filed with the ICC have been in accordance with Rider UEA provisions. This audit report will satisfy our first required audit and will be filed with the ICC no later than August 31, 2011 for both 2008 and 2009.

Objectives and Scope

Objectives

The objectives of our audit, as defined in Rider UEA, were to:

- Verify the adjustments (recovered or credited) filed with the ICC were accurately calculated in compliance with Rider UEA,
- Verify IDUA, ISUA, and ITUA were properly billed to customers,
- Verify revenues or credits resulting from application of the adjustments were properly recorded in appropriate General Ledger (“GL”) accounts,
- Verify the adjustments recovered through the rider were not recovered through other provisions of the rate schedule,
- Verify the incremental charge was properly billed, and
- Verify the Uncollectible Costs in GL Account 904 were properly reported in Form 21.

Scope

The scope of this audit included the Utilities’ adjustments submitted to the ICC for 2008 and 2009, which applied to customers during the period of April 2010 through May 2011.

Conclusion

Based on our testing, we determined the calculations of the adjustments were accurate, in accordance with Rider UEA, properly billed to customers, and properly recorded in appropriate GL accounts. In addition, we verified the adjustments recovered through Rider UEA were not recovered through other provisions of the rate schedule and Uncollectible Costs in Account 904 were properly reported in Form 21.

We would like to thank Regulatory Affairs, Operations Accounting, and Legal and Governance Services for their cooperation and assistance during the course of this review.

We conducted the audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Observations, Recommendations and Action Plans

1.0 Accuracy of Calculated Adjustments

Observation:

On a nightly basis, C-first (Utilities' customer information system) interfaces sales and revenue related billing statistics to the Revenue and Statistics Daily Data Store ("RSDDS") and daily revenue summaries to PeopleSoft (Utilities' General Ledger system). Operations Accounting uses information from RSDDS to calculate the IDUA, ISUA, and ITUA adjustments filed with the ICC. Operations Accounting prepares, reviews, and reconciles the Data Compare Listing on a monthly basis to ensure the billed and unbilled sales in the RSDDS and PeopleSoft match. We concluded the source reports used to calculate the adjustments were accurate.

In order to verify Regulatory Affairs accurately calculated the adjustments, we compared the adjustment calculations to the Utilities' Form 21 2008 and 2009 reporting years. We also compared the formulas Regulatory Affairs used to calculate the adjustments to the formulas outlined in Rider UEA. Based on our review, we determined that Regulatory Affairs accurately calculated the adjustments in accordance with Rider UEA.

2.0 Accuracy of IDUA, ISUA, and ITUA on Customer Bills

Observation:

In order to verify the accuracy of IDUA, ISUA, and ITUA adjustments on customer bills, we statistically sampled 33 customer bills and independently recalculated the adjustments. Based on our analysis, we determined C-first accurately calculated the adjustments on the customer bills.

3.0 Accuracy of Adjustments Properly Recorded in Appropriate GL Accounts

Observation:

We statistically sampled June 2010, December 2010, and March 2011 in order to verify that Operations Accounting accurately recorded the IDUA, ISUA, and ITUA adjustments in appropriate Rider UEA accounts in PeopleSoft (Account 628506: Amortization of Bad Debt Rider, 905008: Bad Debt Rider Adjustment, 182042: Regulatory Asset, 254042: Regulatory Liability, and 904000: Customer Accounts-Uncollectible Accounts). Based on our review, we noted the interfaces between C-first and RSDDS and C-first and PeopleSoft are accurately mapped. We also concluded the source reports used to calculate the adjustments were accurate and the adjustments were properly recorded in the appropriate GL accounts.

4.0 Accuracy of Adjustments Not Recovered Through Other Provisions of the Rate Schedule

Observation:

In order to verify the Utilities did not recover the IDUA, ISUA, and ITUA adjustments through other provisions of the rate schedule, we traced the adjustments calculated to rate tables in C-first. Rider UEA adjustments within the C-first rate tables were individually itemized and not included within other customer charges. Based on our review, we determined the adjustments were not recovered through other provisions of the rate schedule.

5.0 Accuracy of the Incremental Charge on Customer Bills

Observation:

In order to verify the accuracy of the incremental charge on customer bills, we recalculated the prorated rate and total adjustment on one customer bill, for each service classification, and for each adjustment window for each of the Utilities. Per Rider UEA, the adjustments are separated into three windows:

- Window #1: April 1, 2010 – May 31, 2010 (only 2008 adjustments)
- Window #2: June 1, 2010 – December 31, 2010 (2008 and 2009 adjustments)
- Window #3: January 1, 2011 – May 31, 2011 (only 2009 adjustments)

Based on our review, we concluded the incremental charges on customer bills were accurate.

6.0 Accuracy of Uncollectible Costs in GL Account 904 Properly Reported in Form 21

Observation:

In order to verify the Utilities accurately reported the Uncollectible Costs in Form 21, we traced the Uncollectible Costs (GL Account 904) reported in Form 21 to the Uncollectible Costs in PeopleSoft with no exceptions.