



Internal Audit Services

---

---

Rider Uncollectible Expense  
Adjustment Annual Audit  
(Audit #2012-1011)

---

---

August 13, 2012

Carole Lewin  
Tom Westgate  
8/13/12  
P. Eldridge 8/13/12

### Distribution

<b>Issued To:</b>	Christine M. Gregor	Director, Operations Accounting, The Peoples Gas Light and Coke Company (“PGL”) & North Shore Gas Company (“NSG”)
	Mary P. Klyasheff	Senior Counsel, Legal Services
	Edward M. Korenchan	Supervisor, Gas Regulatory Services
<b>Copies To:</b>	Thomas Aridas	Director, Gas Regulatory Policy
	Mary J. Boettcher	Vice President, Customer Relations
	Lawrence T. Borgard	President & Chief Operating Officer, Utilities
	Jodi J. Caro	Vice President, General Counsel & Assistant Secretary
	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
<b>Audit Team:</b>	Cara J. Newman	Staff Auditor, Internal Audit Services – Lead
	Kathy C. Bolbot Durkin	Staff Auditor, Internal Audit Services
	Cori E. Zietlow Roberts	Staff Auditor, Internal Audit Services
	James J. Westgate	Supervisor, Internal Audit Services
	Polly M. Eldringhoff	Manager, Internal Audit Services

### Table of Contents

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

## Executive Summary

### **Audit Summary:**

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 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 Rider UEA. The scope of our audit included the Utilities’ adjustments submitted to the ICC for the 2010 reporting year, which were applied to customers’ bills from June 2011 to May 2012.

### **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 both 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 May 19, 2011, the Utilities filed Rider UEA Uncollectible Expense Adjustments with the ICC in accordance with the Rider UEA provisions for their 2010 reporting year. These adjustments were included on customer bills during June 1, 2011 to May 31, 2012.

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, the Utilities are required to submit an annual 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 is our second annual audit required by Rider UEA. We completed our review and submitted our report on the results of the first audit to the ICC Staff on August 31, 2011 (#2011-1021 Rider UEA Annual Audit).

## Objectives and Scope

### Objectives

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

- Verify the adjustments recovered or credited (refunded) through Rider UEA and 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 Rider UEA 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 the 2010 reporting year, which applied to customers during the period of June 1, 2011 to May 31, 2012.

## 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:

To verify Regulatory Affairs accurately calculated the adjustments for the 2010 reporting year, we compared the adjustment calculations to the actual Uncollectible Accounts Expense reported on the Utilities' 2010 Form 21 and the Uncollectible Accounts Expense amounts included in the Utilities' base rates. 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:

To verify the accuracy of IDUA, ISUA, and ITUA adjustments on customer bills, we randomly selected one customer bill from each of the 17 combinations of service types from the period of June 1, 2011 to May 31, 2012 and independently recalculated the adjustments. Based on our analysis, we determined C-first (Utilities' customer information system) accurately calculated the adjustments on the customer bills.

### 3.0 Accuracy of Adjustments Properly Recorded in Appropriate GL Accounts

#### Observation:

On a nightly basis, C-first interfaces sales and revenue related billing statistics to the Revenue and Statistics Daily Data Store ("RSDDS") and daily revenue summaries to PeopleSoft (Utilities' GL system). On a monthly basis, the RSDDS and Peoplesoft interface billed and unbilled sales and revenue amounts to the Gas Sales and Revenue Model ("GSRM"). On a monthly basis, the GSRM generates the Data Compare Listing that Operations Accounting reviews and reconciles to ensure that billed and unbilled sales in the RSDDS and PeopleSoft match. Regulatory Affairs uses information from RSDDS to calculate the IDUA, ISUA, and ITUA adjustments filed with the ICC.

To verify that Operations Accounting accurately recorded the IDUA, ISUA, and ITUA adjustments in appropriate Rider UEA accounts in PeopleSoft, we reviewed the Data Compare Listing for the months of July 2011, September 2011, and April 2012. 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:**

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:**

To verify the accuracy of the incremental charge on customer bills, we recalculated the rate and total adjustment on one customer bill, for each service classification, and for gas supply and each transportation service for each of the Utilities. Per Rider UEA, the adjustments were effective June 1, 2011 to May 31, 2012. 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:**

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.