



Internal Audit Services

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Rider Uncollectible Expense  
Adjustment Annual Audit-  
2012 Reporting Year  
(Audit #2013-1043)

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March 18, 2014

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## Executive Summary

### Audit Summary:

On February 2, 2010, the Illinois Commerce Commission (“ICC”) approved 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”). Rider UEA provides monthly incremental adjustments to customer bills for any over- or under-recoveries of the Utilities’ actual Uncollectible Accounts Expense amounts for a reporting year against the amount of Uncollectible Accounts Expense granted by the ICC in the rate proceedings governing the scope period.

The objective of our audit was to verify the Utilities’ compliance with Rider UEA as required by the audit steps defined in Rider UEA. The scope of our audit included the Utilities’ adjustments submitted to the ICC for the 2012 reporting year and customer bills from June 2013 to November 2013.

### Conclusion:

Based on our review, we determined that except as noted below, the Utilities complied with the provisions of Rider UEA. Except for the immaterial issues noted in the report, we determined the Utilities accurately calculated the Rider UEA adjustments based on the actual Uncollectible Accounts Expense. In addition, subsequent to the 2012 reporting year and independent of the Rider UEA calculations, the Utilities identified and corrected an immaterial billing error that resulted from an oversight in the update of the new Rider UEA-Gas Cost rate on the effective date of June 27, 2013. The Utilities appropriately applied all other Rider UEA adjustments to customer bills.

We conducted the audit in accordance with 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’s bills based on their applicable service type: delivery service (“IDUA”) or gas supply service (“ISUA”). As required by Rider UEA, the Utilities included transportation service (formerly “ITUA”) in the IDUA calculation effective with the June 1, 2013 adjustments. Rider UEA applies to Service Classifications No. 1 (Small Residential Service), No. 2 (General Service), No. 4 (Large Volume Demand Service), and No. 8 (PGL only - Compressed Natural Gas Service).

On May 16, 2013, the Utilities filed Rider UEA Uncollectible Expense Adjustments with the ICC in accordance with the Rider UEA provisions for their 2012 reporting year. These adjustments are effective on customer bills from June 1, 2013 to May 31, 2014.

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. The Utilities filed the petition with the ICC on August 30, 2013. In addition, the Utilities are required to submit an annual internal audit to the ICC by August 31 of each year. We performed our internal audit earlier in the process to provide more timely feedback regarding the May Rider UEA adjustments filing. 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.

## Objectives and Scope

### Objectives

The objectives of our audit were to determine if:

- Adjustments recovered or credited (refunded to customers) through Rider UEA and filed with the ICC were accurately calculated in compliance with Rider UEA,
- IDUA, ISUA, and Rider UEA-Gas Cost adjustments were properly billed to customers,
- Rider UEA revenues or credits resulting from application of the adjustments were properly recorded in appropriate General Ledger (“GL”) accounts,
- Uncollectible costs recovered through Rider UEA were not recovered through other provisions of the rate schedule,
- Rider UEA incremental charges were properly billed,
- Uncollectible Accounts Expense amounts in GL Account 904 (Customer Accounts-Uncollectible Accounts) were properly reported in Form 21,
- Effective January 21, 2012, the SUR (gas supply services) component accurately reflected amounts billed under Rider UEA-Gas Cost of this rate schedule for the applicable reporting period, and
- Rider UEA adjustments were submitted timely to the ICC.

## Scope

The scope of our audit included the Utilities' adjustments submitted to the ICC for the 2012 reporting year and customer bills from June 2013 to November 2013.

## Conclusion

Based on our review, we determined that the calculations of the adjustments were accurate, in accordance with Rider UEA, and the SUR component accurately reflected amounts billed under Rider UEA-Gas Cost. However, we noted two immaterial issues with the customer counts supporting the calculations. Neither issue affected the final adjustments calculated. The Utilities filed the Rider UEA adjustments timely with the ICC.

In July 2013, independent of the Rider UEA calculations and subsequent to the 2012 reporting year calculations, the Utilities identified and corrected a billing error (approximately \$300 under billed) that resulted from an oversight in the update of the new Rider UEA-Gas Cost rate on the effective date of June 27, 2013. The Utilities appropriately applied all other Rider UEA adjustments to customer bills during the correct period.

We also determined that Rider UEA revenues and credits were properly recorded in the appropriate GL accounts. In addition, we verified that the adjustment amounts recovered through Rider UEA were not recovered through other provisions of any rate schedule and that the Uncollectible Accounts Expense amounts in GL 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

### 1.0 Accuracy of Calculated Adjustments

#### Observation:

To verify that Regulatory Affairs accurately calculated the adjustments for the 2012 reporting year, we compared the adjustment calculations to the actual Uncollectible Accounts Expense reported on the Utilities' 2012 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 identified two immaterial issues with the support for the adjustment calculations. According to the provisions of Rider UEA, the per-customer adjustments are supposed to be based on forecasted customer counts for the effective period (June 1, 2013 to May 31, 2014). Regulatory Affairs used forecasted customer counts for June 2013 to May 2014 from the budget that was prepared in 2012 for PGL, but used forecasted customer counts from the budget update prepared in 2013 for NSG as the new forecast was being prepared at the same time as the Rider UEA filing was prepared. While neither forecast was inappropriate to use, support for the calculations performed for a reporting year should be consistent, when possible. The final adjustments calculated for NSG would not have changed if the calculation used the customer counts from the same period that was used for PGL.

Within the customer count support used for PGL, formulas were used to add the customer counts from the period of June 1, 2013 to May 31, 2014. However, we identified that the

formulas for PGL Service Classification No. 1 used the incorrect customer count number for June 2013. This formula error did not affect the final adjustments calculated for PGL.

Other than the two immaterial issues noted above, we determined that Regulatory Affairs accurately calculated the adjustments in accordance with Rider UEA.

## **2.0 Accuracy of IDUA, ISUA, and Rider UEA-Gas Cost on Customer Bills**

### **Observation:**

To verify the accuracy of IDUA and ISUA adjustments on customer bills, we randomly selected one customer bill from each of the 19 combinations of service types from the period of June 1, 2013 to November 13, 2013 and independently recalculated the adjustments. In addition, we verified the customer bills included the correct Rider UEA-Gas Cost rate that was in effect during the scope period. Based on our analysis, we determined C-first (the Utilities' customer information system) accurately calculated the adjustments on the customer bills.

On July 1, 2013, prior to the occurrence of the required internal audit, the Utilities identified that the Rider UEA-Gas Cost rate effective on June 27, 2013 had not been updated in C-first; thus, the Utilities inaccurately billed some customers (with the majority of inaccurate bills being off by only \$0.01) resulting in a net under billing of approximately \$300. The Utilities corrected the customer bills impacted by the error. We verified that the Utilities updated C-first with the correct Rider UEA-Gas Cost rate and that customer bills were corrected accordingly. This billing error would not have affected the 2012 reporting year filing, as the Rider UEA-Gas Cost revenues used for the ISUA calculation in Rider UEA were from 2012, not 2013. In addition, since the billing error was corrected, it will not affect the 2013 reporting year filing.

## **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 (the Utilities' GL system). Operations Accounting personnel prepare, review, and approve the Data Compare Listing on a monthly basis to ensure that billed and unbilled revenues in the RSDDS and PeopleSoft match. Regulatory Affairs uses the Revenue Detail Report from RSDDS to calculate the IDUA and ISUA adjustments filed with the ICC.

To verify that Operations Accounting accurately recorded the IDUA and ISUA adjustments in appropriate Rider UEA accounts in PeopleSoft, we reviewed the Data Compare Listing for the months of June, August, and October 2013. 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 PeopleSoft GL accounts.

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

### **Observation:**

C-first aggregates revenues by Determinant Code for summary on the Revenue Detail Report, which Regulatory Affairs uses to calculate the IDUA and ISUA adjustments. C-first contains seven Determinant Codes that are specific to Rider UEA.

To verify the Utilities did not recover the IDUA and ISUA adjustments through other provisions of the rate schedule, we verified the Rider UEA adjustments within the C-first rate tables were individually itemized and classified with a Rider UEA Determinant Code. We also verified that non-Rider UEA rates were not classified with a Rider UEA Determinant Code. To verify that only Rider UEA Determinant Codes were aggregated to the Rider UEA lines on the Revenue Detail Report, we agreed the 2012 total for each Rider UEA Determinant Code to the 2012 Revenue Detail Report.

Rider UEA revenues and credits are recorded to specific Rider UEA GL accounts. To verify the Utilities did not recover Rider UEA revenues and credits through the general rate case process, we verified the revenue requirement in the 2012 test year rate case only included the approved Uncollectible Accounts Expense amount.

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 applicable service type (gas supply or transportation), for each of the Utilities (19 combinations), for the period of June 1, 2013 to November 13, 2013. Based on our review, we concluded the incremental charges on customer bills were accurate. The immaterial error with the Rider UEA-Gas Cost rate identified in section 2.0 was not part of the 2012 reporting year Rider UEA calculations and, having been corrected, will not affect the 2013 reporting year Rider UEA calculations.

## **6.0 Accuracy of Uncollectible Accounts Expense Amounts in GL Account 904 Properly Reported in Form 21**

### **Observation:**

To verify the Utilities accurately reported the Uncollectible Accounts Expense in Form 21, we traced the Uncollectible Accounts Expense reported in Form 21 to the Uncollectible Accounts Expense in PeopleSoft (GL Account 904) with no exceptions.

## **7.0 Accuracy of SUR Component Reflecting Amounts Billed Under Rider UEA-Gas Cost**

### **Observation:**

To verify the SUR component of the ISUA adjustment calculations accurately reflected the amounts billed under Rider UEA-Gas Cost, we traced the SUR component to the Rider UEA-Gas Costs revenues for 2012 as reported on the Revenue Detail Report with no exceptions.

## **8.0 Timely Filings to the ICC**

### **Observation:**

The Utilities filed the annual Rider UEA filings with the ICC on May 16, 2013, which was prior to the required filing date of May 20, 2013. We validated these filings included the IDUA and ISUA components tested in section 1.0. We reviewed these filings and did not note any issues.