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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Foraker Gas Company, Inc. for Approval of an Amendment to its Contracts Governing the Provision of Natural Gas Service to its Residential and Commercial Customers and Related Matters.	:	Case No. 13-1910-GA-AEC
In the Matter of the Application of Foraker Gas Company for Authority to Implement a Purchased Gas Adjustment Clause pursuant to Chapter 4901:1-14, Ohio Administrative Code.	:	Case No. 13-1911-GA-GCR

REPLY COMMENTS OF FORAKER GAS COMPANY, INC.

To assist the Commission in its review of the above-captioned application of Foraker Gas Company, Inc. ("Foraker"), the attorney examiner, by entry of November 14, 2013, established a schedule for the filings of comments, with initial comments by customers and any other interested parties due by January 16, 2014, and reply comments from Foraker due by January 31, 2014. Only two Foraker customers, Mr. Mark J. Howdyshell and Mr. Chris Weese, submitted comments in response to the attorney examiner's entry.[1] Foraker hereby submits its reply to these comments.

As authorized by its Commission-approved tariff, Foraker provides natural gas service to its residential and commercial customers pursuant to individual gas user agreements governing the rates and charges for service. By its September 6, 2013 application in these proceedings,

[1] *See* Comments of Mark J. Howdyshell dated December 31, 2013; Comments of Chris Weese dated January 14, 2014.

Foraker seeks approval of amendments to its residential and commercial contracts that would replace the current bundled per-Mcf rate for service with a base distribution rate and a separate gas cost recovery ("GCR") rate for commodity supply, with the GCR rate to be regulated by the Commission pursuant to the rules governing purchased gas adjustment clauses set forth in Chapter 4901:1-14, Ohio Administrative Code ("OAC"). Thus, the application also requested that the Commission establish a GCR docket for Foraker for the filing of monthly adjustments to the GCR rate in accordance with Rule 4901:1-14-05, OAC. The proposed amendment would not affect the current $12.00 per month customer charge or the gross receipts tax rider, which are the other elements of Foraker's bills.

As explained in detail in the application, and as supported by documentation submitted to the Commission staff ("Staff"), Foraker analyzed its annual sales volumes, billed revenues, and gas costs over an historical twelve-month period so as to identify and break out the commodity cost component implicit in its current bundled per-Mcf rates. This methodology was employed because gas costs fluctuate monthly, and simply subtracting the current month's gas cost from the existing per-Mcf rates would not produce a representative base distribution rate. With the gas cost component removed, the indicated base distribution rate was $5.68 per Mcf for residential service and $6.42 per Mcf for commercial service. For the three months ending September 30, 2013, the most recent quarter for which information was available at the time the application was filed, the indicated expected gas cost was $3.43 per Mcf. Thus, as noted in the application, the actual impact of the proposed amendment on customer bills for September would have been essentially revenue neutral, with residential customers paying a total of $9.11 per Mcf of gas consumed ($5.68 + $3.43 = $9.11), as opposed to the current bundled rate per Mcf of

$9.00, and commercial customers paying a total of $9.85 per Mcf of gas consumed ($6.42 + $3.43 = $9.85), as opposed to the current bundled rate of $9.80.

In his comments, Mr. Howdyshell contends that, although Foraker states otherwise, the proposed amendment will, in fact, result in as significant increase in customer bills, which Mr. Howdyshell characterizes as "excessive and unmerited." Mr. Howdyshell goes on to suggest that Foraker's motivation in seeking approval of the amendment it to obtain "an extraordinary increase in their *[sic]* operating cost recovery." Foraker disagrees.

The market price of gas has, indeed, risen since the application was filed, and, as Mr. Howdyshell correctly points out, this will mean that the combined total per-Mcf rate (*i.e.*, the proposed base distribution rate plus the GCR rate based on the expected gas cost for the current quarter) would be higher upon the implementation of the GCR rate than under the bundled per-Mcf rate Foraker currently charges. However, this is precisely the circumstance that GCR rate mechanism is intended to address. With a fixed bundled rate for service, Foraker can experience significant losses when the price of gas, over which it has no control, goes above the level implicitly reflected in the bundled rate. On the other hand, had the market price of gas gone down since the application was filed, customers would be overpaying for the service they receive because the bundled rate would have over-recovered Foraker's actual cost of gas. Because the GCR rate contains no profit component and is merely a pass-through mechanism, Mr. Howdyshell's conclusion that approval of the application would result in "an extraordinary increase in . . . operating cost recovery" is simply incorrect. Foraker will recover its operating costs through its base distribution rates, which are fixed and will not change. Further, as a result of the methodology employed by Foraker to establish the base distribution rates, the $5.68

residential base rate and the $6.42 commercial base rate are identical to the theoretical operating cost components of the bundled rates that were in place in 2012, notwithstanding that Foraker's operating costs have increased since that time.

As discussed in the application, the Commission has previously determined that Foraker's provision of service to its residential and commercial customers pursuant to individual contracts constitutes a reasonable arrangement under Section 4905.31, Revised Code. This determination is supported by numerous considerations, including Foraker's unique history, its small customer base versus the extent of its system, the interruptible nature of the service it provides, and a nearly complaint-free track record, all of which are described in the application. The proposals now before the Commission are intended solely to fine-tune Foraker's existing gas user agreements to address the significant problem created by gas price volatility, and to do so in a manner that provides protection to customers through a Commission-regulated GCR rate. The only alternative would be for Foraker to apply to establish base distribution rates pursuant to Section 4909.18, Revised Code, as a first filing and request authority to implement a GCR rate, but that approach would ultimately produce the same substantive result Foraker seeks through these applications – a base distribution rate based on historical operating costs and a variable GCR rate – while burdening customers with the cost of preparing and prosecuting the rate application and producing a delay that could threaten Foraker's financial viability. Thus, the application now before the Commission is a common-sense solution to a difficult situation, and approval of the application is in the best interests of both the company and its customers.

The comments filed by Mr. Weese touch on a variety of subjects, most of which are not germane to the pending application. However, because certain of these comments reflect a basic misunderstanding of the company's practices and procedures, Foraker will respond to each of the concerns raised Mr. Weese in order to dispel any confusion the comments may have created.

First, Mr. Reese states that the information supplied by Foraker is not adequate for customers to determine whether the proposals in the application are fair to the company or the customer. However, not only was the notice provided to customers pursuant to the attorney examiner's entry reviewed by Staff prior to distribution, but the notice was never intended to be a substitute for the application itself or the supporting analysis submitted to Staff. Further, the notice indicated that questions regarding the application could be directed to the company, and provided the company's phone number. Mr. Reese did not contact the company with questions regarding the application.

Second, Mr. Reese observes that, for many years, Foraker indicated that it was not subject to Commission jurisdiction, and questions why Foraker now says that it is. As explained explained in the application, since its inception, Foraker has filed annual reports with the Commission, paid all applicable utility taxes and assessments, and complied with all applicable pipeline safety requirements. However, Foraker did not seek Commission approval of its gas user agreements, many of which had been in place since the 1960s, based on advice communicated to it informally by the Commission staff ("Staff") that, under the circumstances, this service in question was not jurisdictional.[2] In 1996, the Staff took the opposite view, and,

[2] Foraker only installed taps upon the request of property owners located along the gathering and distribution lines that were originally constructed to deliver locally-produced gas to four pottery and tile manufacturers with facilities in the New Lexington-Junction City area. The taps were provided as an accommodation to the property owners that approached Foraker requesting service, often as a backup to their own wells, and not as a result of any public utility obligation to serve. Foraker has never solicited residential customers and will not extend its lines to serve new residential customers, and the gas user agreements make clear that Foraker does not guarantee that it will continue to provide the service in the future.

rather than devoting resources to challenging the Staff position, Foraker sought approval of its residential and commercial gas user agreements, notwithstanding that many of these agreements did not contain specified charges for service and referred only to the customer's obligation to pay the "present price." Even those later agreements that did include a specified charge continued to to describe the charge as the "present price," and it was understood by the customers that Foraker might find it necessary to adjust the charges from time to time. By its application in this case, Foraker seeks to establish a GCR rate that will systematically track fluctuations in its cost of gas, and, accordingly, the proposed contract amendments eliminate the reference to the "present price" in the gas user agreements, thereby recognizing that it will no longer be necessary for Foraker to unilaterally adjust its rates. Thus, although it is not clear to Foraker why Mr. Weese raises this point, there can be no question that customers will be afforded additional protection by the implementation of a Commission-regulated GCR rate.

Third, Mr. Weese notes that Foraker previously increased its customer charge from $6.00 per month to $12.00 per month, and asks why Foraker is allowed to impose a $12.00 customer charge "when there *[sic]* competitors charge six dollars." Foraker is not certain what other local local distribution company ("LDC") Mr. Weese had in mind when referring to Foraker's competitors, but would point out that Columbia Gas of Ohio, Inc. ("COH"), which also provides service in the area, charges a fixed monthly charge far in excess of $12.00 per month. Further, Foraker would note that its 300 residential customers are located along some 70 miles of gathering and distribution lines. Historically, Commission-approved monthly customer charges have been calculated so as to reflect costs that the utility incurs simply by virtue of the fact that the customer is on the system. It should be apparent that, for Foraker, the cost of reading customer meters each month would far exceed, on a per-customer basis, the meter reading cost incurred by gas companies like COH that serve predominantly in urban areas. Thus, notwithstanding that Foraker has not proposed to increase the current monthly customer charge in its application in these proceedings, there is no basis for Mr. Reese's suggestion that the $12.00 monthly customer charge currently assessed by Foraker is unreasonable.

Fourth, Mr. Weese asks whether Foraker customers will have the option to purchase gas from another supplier if the application is approved. Only the state's largest LDCs offer choice programs, so Foraker's residential customers do not have the option of selecting a competitive retail natural gas supplier for commodity supply. However, Foraker reviews various wholesale marketer offers before entering into supply arrangements to assure that it is obtaining gas at the most favorable price available. Further, because Foraker's system supply continues to include a local production component that is priced below market, it is reasonable to conclude that, all else being equal, Foraker's gas costs would likely be lower than those incurred by an LDC that purchases all its gas from wholesale marketers. More to the point, as previously indicated, with the implementation of the GCR mechanism as proposed in the application, Foraker's gas costs and procurement practices will be subject to periodic Commission review, which will eliminate any concern that the GCR rate charged by Foraker is unfair or unreasonable.

Next, Mr. Weese complains that Foraker charges a large tap fee to new customers and that the customer is responsible for the cost of facilities downstream of the tap, whereas there are other companies that charge no tap fee and install all facilities up to and including the meter at no cost to the customer. Although this objection is plainly not relevant to any proposal in the application, Foraker would note that, like many small LDCs, the company's Commission-approved tariff authorizes it to impose an up-front fee for installing a tap to provide service to a new customer. Unlike large LDCS that socialize the costs associated with installing new taps among all customers through the rates established in a base rate proceeding, smaller gas companies typically elect to recover these nonrecurring costs from the cost causer by imposing a fee for the connection to its line. There is nothing untoward about this. Further, contrary to Mr. Weese's suggestion, Foraker does furnish the meter at its own cost. However, as explained in the application, Foraker sets its meters at the tap, not at the customer's residence as is typically the case for gas companies operating in urban areas. This practice is dictated by the predominantly rural nature of the Foraker's service area, which means that there is often a substantial distance (sometimes in excess of 2,500 feet) between the property line where the tap is located and the customer's residence. Under these circumstances, it is entirely appropriate that a customer requesting a tap bear the responsibility for the installation and maintenance of the service line from the tap to the residence.

Finally, Mr. Weese questions why Foraker applies a conversion factor to the Mcf usage shown by the meter registration in calculating its bills, while the bills he receives from COH for accounts he has with that company do not contain such an adjustment. The conversion factor, which is identified as a bill component on Foraker's Commission-approved bill format, is applied to translate the volume of gas delivered to the meter to the amount of gas actually consumed by the customer and is a function of separate adjustments for pressure, temperature, and the conversion of volume-based Mcf to caloric-based Dth, the basis upon which the gas supplied to Foraker is measured. The pressure factor adjustment represents the lion's share of the conversion factor and is necessary to recognize the expansion of the gas resulting from the difference between the pressure at which it is delivered to the meter and the pressure on the customer side of the meter. Foraker delivers gas to its rural residential customers at 18 psig, whereas COH delivers gas to residential customers, most of which reside in urban areas, at a fraction of that pressure, which is why Mr. Weese does not see a conversion factor on the bills for his COH accounts. Indeed, pressure conversion factors and temperature adjustments are employed by other small Ohio LDCs in similar circumstances.

Foraker has filed these reply comments well in advance of the specified due date in the hope that the Commission will expeditiously issue an order approving its applications so that it can implement its GCR rate with its February billings and thereby avoid the significant loss it will sustain if it cannot adjust its current rates to reflect the recent increase in gas costs, a concern exacerbated by the extremely cold temperatures experienced in January. As evidenced by the fact that only two customer have filed comments with the Commission and the fact that Foraker itself has received only one inquiry in response to the customer notice regarding the applications, there is no significant customer opposition to Foraker's proposal. Accordingly, Foraker respectfully requests that the Commission approve the proposed amendments to its existing gas user agreements forthwith, pre-grant approval of such additional conforming user agreements as Foraker may enter into with other residential and commercial customers in the future, and establish a Foraker GCR docket.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing has been served upon the following parties by first class US mail, postage prepaid, this 21st day of January 2014.

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