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, Inc. for Authority to Implement a Purchased Gas Adjustment Clause Pursuant to Chapter 4901:1-14, Ohio Administrative Code.	)	Case No. 13-1911-GA-GCR

FINDING AND ORDER

The Commission finds:

(1) Foraker Gas Company, Inc. (Foraker or the Company) is a public utility as defined in R.C. 4905.02 and a natural gas company under R.C. 4905.03 and, as such, is subject to the jurisdiction of this Commission.

(2) On September 6, 2013, Foraker filed an application, pursuant to R.C. 4905.31, seeking authority to amend its agreements governing the provision of natural gas service to the Company's approximately 300 residential customers and 26 commercial customers. Specifically, Foraker proposes to replace the current fixed per thousand-cubic-feet (Mcf) rate for service with a base distribution rate, monthly customer charge, gross receipts tax rider, and a separate gas cost recovery (GCR) rate for commodity service. According to Foraker, the proposed transition to the new rate structure would be revenue neutral from the customers' perspective, resulting in, at most, a minimal initial impact on customers' bills, while protecting the Company in periods of high gas prices. Foraker proposes, based on an analysis of its sales volumes, billed revenues, and gas costs for 2012, an initial GCR rate of $3.43 per Mcf, with base distribution rates of $5.68 per Mcf and $6.42 per Mcf for residential and commercial service, respectively.

(3) Foraker also seeks pre-approval of any additional agreements that the Company may enter into with other residential and commercial customers, so long as the rates and terms contained in the agreements are consistent with those set forth in the amendments proposed in this application. Finally, Foraker seeks authority to implement a purchased gas adjustment clause, pursuant to Ohio Adm.Code Chapter 4901:1-14, and requests that the Commission establish a GCR docket for the filing of monthly adjustments to the Company's GCR rate, in accordance with Ohio Adm.Code 4901:1-14-05.

(4) In support of the application, Foraker notes that the Commission has previously determined that the Company's provision of service to its residential and commercial customers pursuant to individual agreements constitutes a reasonable arrangement under R.C. 4905.31. Foraker adds that its Commission-approved tariff specifically provides that the Company's rates will be governed by Commission-approved agreements. Foraker asserts that its application is merely intended to fine tune the existing reasonable arrangement to incorporate a GCR rate, which will enable the Company to weather increases in gas costs and benefit customers when gas prices fall. Foraker explains that the supply of locally-produced gas has diminished, which, over time, has required the Company to rely more heavily on independent suppliers to meet the needs of its customers. Foraker further explains that, as a result, its current fixed residential and commercial rates have been inadequate to recover commodity costs during periods of high gas prices.

(5) Attached to the application, Foraker submitted a copy of an executed amended residential customer agreement and an executed amended commercial customer agreement. Foraker proposes to distribute the proposed amendments to all customers that have not yet executed an amended agreement, along with a customer notice in a form to be submitted to Staff for review. Upon approval of the proposed amendments, Foraker notes that it will file a revised bill format reflecting the inclusion of a GCR rate.

(6) By Entry issued on November 14, 2013, a procedural schedule was established in order to assist the Commission in its review of Foraker's application. In accordance with the procedural schedule, Foraker was required to provide notice of the application to its residential and commercial customers by December 17, 2013. A copy of the notice was required to be provided to Staff, at least 10 days prior to its distribution to customers. Comments and reply comments on the application were due on January 16, 2014, and January 31, 2014, respectively.

(7) Comments were filed by two of Foraker's customers on January 2, 2014, and January 17, 2014. Reply comments were filed by Foraker on January 21, 2014.

Summary of Comments

(8) In the January 2, 2014 comments, the customer states that he is strongly opposed to the rate change requested by Foraker. The customer states that Foraker's application amounts to an excessive and unmerited rate increase of nine percent for recovery of the Company's operating costs. The customer points out that he has no other choice of supplier, and concludes that Foraker's proposed rate change is unjustified and should be denied.

(9) In its reply comments, Foraker points out that the market price of gas has risen since its application was filed, which means that the combined total per Mcf rate would be higher upon implementation of the proposed GCR rate than under the bundled per Mcf rate that the Company currently charges. Foraker adds that, with a fixed bundled rate for service, the Company experiences significant losses when the price of gas exceeds the level implicitly reflected in the bundled rate. Foraker further adds that, if the market price of gas had decreased since the application was filed, customers would be paying too much, because the bundled rate would recover more than the Company's actual cost of gas. Foraker emphasizes that the proposed GCR mechanism is intended to address this situation. Foraker also notes that the proposed GCR rate contains no profit component and is merely a pass-through mechanism. With respect to its

operating costs, Foraker points out that such costs will be recovered through its base distribution rates, which are fixed and will not change. Foraker concludes that its application is intended to resolve 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.

(10) In the January 17, 2014 comments, the customer states that Foraker has not provided sufficient information, such as the total number of customers or total annual gas sales, to enable the Commission or customers to evaluate the application. The customer points out that Foraker once claimed that it was not under the Commission's jurisdiction, although now the Company states that it is subject to regulation by the Commission. The customer also states that Foraker's monthly fee recently doubled, such that the Company charges twice as much as its competitors, while also charging a large tap fee that other gas companies do not impose. The customer adds that Foraker uses a conversion factor that results in a billed amount that is greater than the amount of gas actually consumed. The customer questions whether other options are available for the purchase of gas, and concludes that the Commission should bring Foraker in line with other gas suppliers.

(11) Initially, Foraker replies that the notice provided to customers was not intended to supplant the application or the supporting analysis submitted to Staff. Foraker adds that the customer did not contact the Company for further information, although the customer notice provided the Company's phone number for questions regarding the application. Next, Foraker notes that the application fully explains the Company's history in relation to the Commission and, in any event, customers will be afforded additional protection by the implementation of a Commission-regulated GCR rate.

(12) With respect to its monthly customer charge, Foraker states that Columbia Gas of Ohio, Inc., which also provides service in the area, has a fixed monthly charge that is much higher than the Company's. Foraker also states that its 300

residential customers are located along roughly 70 miles of gathering and distribution lines, resulting in meter reading costs that far exceed, on a per customer basis, the meter reading costs of gas companies providing service in predominantly urban areas. Foraker points out that no increase in the current monthly customer charge is requested in the application, and argues that there is no basis for concluding that its current charge is unreasonable. Regarding the tap fee, Foraker notes that its tariff authorizes collection of an upfront fee for installing a tap to provide service to a new customer, as is the case with most small gas companies.

(13) Further, Foraker notes that, although customers of small companies do not have the option of selecting an alternative supplier, the Company reviews wholesale offers before entering into supply arrangements to ensure that it is obtaining gas at the lowest available price. Foraker adds that, if its application is approved, the Company's gas costs and procurement practices will be subject to periodic Commission review, which should eliminate any concern that the GCR rate is unfair or unreasonable. Finally, Foraker states that its Commission-approved bill format includes the conversion factor as a means to convert the volume of gas delivered to the meter to the amount of gas actually consumed by the customer. Foraker explains that the conversion is necessary to account for pressure, temperature, and other factors and that such adjustments are routinely employed by other small gas companies.

(14) As a final matter, Foraker states that there is no significant customer opposition to its application and, therefore, requests that the application be expeditiously approved such that the Company may implement the proposed GCR rate with its February billing cycle. Foraker emphasizes that it will sustain a significant loss if the Company cannot adjust its current rates to reflect the recent increase in gas costs, which has been exacerbated by the extremely cold temperatures experienced this winter.

Conclusion

(15) Upon review of Foraker's application and the comments and reply comments filed in these cases, the Commission finds that the application is reasonable and should be approved. Specifically, we grant Foraker's request for authority to implement a purchased gas adjustment clause, in accordance with Ohio Adm.Code Chapter 4901:1-14. The Commission finds that Foraker's proposal to establish a GCR rate is consistent with the provisions of R.C. 4905.302 and Ohio Adm.Code Chapter 4901:1-14, which enable a gas or natural gas company to adjust the rates that it charges to its customers in accordance with any fluctuation in the cost to the company of obtaining the gas that it sells. As the Commission has previously determined, a gas or natural gas company may be authorized to implement a GCR rate pursuant to R.C. 4905.302, without adherence to the procedural requirements of R.C. 4909.18 and 4909.19, and, therefore, we find that it is unnecessary to hold a hearing in these matters. *In re Constitution Gas Transport Co., Inc.*, Case No. 05-1230-GA-GCR, Finding and Order (Nov. 22, 2005).

(16) Pursuant to R.C. 4905.31, the Commission grants Foraker's request for approval of the amended residential gas user agreement and commercial gas user agreement attached to the Company's application as Exhibits A and B, thereby replacing the current fixed per Mcf rate for service with a base distribution rate, monthly customer charge, gross receipts tax rider, and a GCR rate for commodity service. We further grant Foraker's request for approval of any additional agreements that the Company may enter into with other residential and commercial customers, provided that the rates and terms contained in the agreements are consistent with those set forth in the agreements attached to the application. Consistent with R.C. 4905.31, Foraker shall file such agreements in Case No. 13-1910-GA-AEC.

(17) In approving Foraker's application, the Commission notes that we have previously authorized the Company's provision of service to its residential and commercial customers through individual customer agreements, pursuant to R.C. 4905.31. *In re Foraker Gas Company*, Case

No. 96-328-GA-ATA, et al., Entry (Nov. 19, 1998). As Foraker points out in its reply comments, the Company provides service through individual customer agreements for several reasons, including the Company's small customer base spread across an extensive system, its unique history, and the interruptible nature of the service that the Company provides. The Commission finds that Foraker's application, which is intended to address the significant problem created by gas price volatility, is a reasonable means to protect the financial stability of the Company in the face of fluctuating gas prices, while also safeguarding customers' interests by way of a Commission-regulated GCR rate. As Foraker emphasizes in its reply comments, the Company will sustain a significant loss if its rates are not adjusted to reflect the recent increase in gas costs. Although the Commission approves Foraker's request to implement a GCR rate, we also encourage the Company to put forth its best efforts to procure gas supplies at the most favorable pricing available, as well as to consider whether there are viable options to restructure the Company, such as through a merger with another supplier, as a means of improving operational efficiency, benefiting from economies of scale, and best serving Ohio consumers. We direct Staff to work with Foraker on these important issues and to provide an update to the Commission during the Company's first GCR audit proceeding.

(18) Although the comments filed in these dockets express concerns regarding the rate impact of Foraker's application, we note that a GCR rate is a pass-through mechanism enabling a gas or natural gas company to recover its commodity costs, with no profit component. Foraker's GCR rate, which will be adjusted and trued up monthly in accordance with Ohio Adm.Code 4901:1-14-05, will ensure that the Company fully recovers its commodity costs and nothing more. During periods of low gas prices, the GCR mechanism will ensure that the benefit of reduced commodity costs flows through to Foraker's customers. Although gas prices have increased over the recent winter months and Foraker's customers will, therefore, be charged a higher combined total per Mcf rate, customers should

begin to experience some relief in their bills, as the winter heating season winds down and gas prices subside. Further, with the implementation of the GCR mechanism, Foraker's gas costs and procurement practices will be subject to periodic Commission review, which will ensure that the Company's GCR rate is reasonable and calculated in accordance with the requirements of Ohio Adm.Code Chapter 4901:1-14. Accordingly, Foraker is directed to file its GCR reports in Case No. 13-1911-GA-GCR, which will be used for the filing of monthly adjustments to the Company's GCR rate in 2014, in accordance with Ohio Adm.Code Chapter 4901:1-14.

It is, therefore,

ORDERED, That Foraker's application be approved. It is, further,

ORDERED, That Foraker submit its proposed customer notice to Staff for review, at least 10 days prior to its distribution to customers. It is further,

ORDERED, That Foraker file a revised bill format reflecting the inclusion of a GCR rate. It is, further,

ORDERED, That Foraker file, in Case No. 13-1910-GA-AEC, executed customer agreements that conform to the provisions in the application, as approved by the Commission. It is, further,

ORDERED, That Foraker file its monthly GCR reports for 2014 in Case No. 13-1911-GA-GCR. It is, further,

ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further, ORDERED, That a copy of this Finding and Order be served upon all parties and other interested persons of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Steven D. Lesser

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Barcy F. McNeal
Secretary