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A report by the Staff of the Public Utilities Commission of Ohio

Foraker Gas Company, Inc.
Case No. 15-204-GA-GCR

Financial Audit of the Gas Cost Recovery Mechanisms for the Costs Incurred and Included for Recovery for the Months February 2014 through January 2015

October 21, 2015

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Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), Staff has completed the required audit of Foraker Gas Company, Inc.'s (Foraker or Company) gas cost recovery (GCR) and the costs incurred and included for recovery for the period of February 2014 to January 2015. The Staff audited for conformity with the procedural aspects of the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, O.A.C. and related appendices, and by Commission Entry signed on February 19, 2015, in Case No. 15-204-GA-GCR.

The Staff's audit has revealed certain findings, as discussed in this audit report, which should be addressed in this proceeding. Staff notes that at the time of preparing this report, unless otherwise noted, Foraker accurately calculated its gas cost recovery rates for those periods under investigation in accordance with the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, O.A.C., and related appendices, except for those instances summarized in the Executive Summary of this audit report and detailed in Chapters III through IX of this report. The Staff has performed investigation into these specific areas and respectfully submits its findings and recommendations.

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Tamara S. Turkenton for David Lipthratt TST 10-20-2015
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Section I

Executive Summary

Audit Work Program

The audit investigation consisted of several components. Staff initially reviewed and evaluated relevant documents from within the Commission in preparation for the audit. Next, Staff submitted data requests for documentation transactions and billings during the audit period. Staff reviewed and evaluated these documents in order to understand and evaluate the Company's procurement activities and customer billing.

Recommendations

Unless otherwise stated in this report, Staff's review has shown that Foraker accurately calculated its GCR rates for the periods that are discussed in this report. Following is a summary of Staff's recommendations contained in Chapters III through IX of this report:

- Staff recommends that the Company closely monitor the meter of its largest sales/special contract customer to ensure that the newly installed meter is registering accurately.
- The differences between the Staff and Company calculations in the AA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment in the customers' favor in the amount of $431 to be included in the next GCR filing following the Commission's Opinion and Order in this case.
- Staff recommends that the Company continue to examine its documentation to ensure that it is capable of providing the necessary support for its GCR calculations.

Section II

Background and Operational Issues

Background

Foraker is a small local distribution company serving customers in southeastern Ohio. In October 1960, Foraker was formed to gather local production, which was then transported to several large industrial customers engaged in the manufacture of ceramic and tile products. Through time, the gathering lines were extended to connect to additional producers and to serve more industrial customers In the early 1960's, Foraker connected to the Energy Cooperative, formerly National Gas & Oil Corporation, as a means to provide stand-by service in the event that local production was not sufficient to meet its system's demands.

From 1960 to 1973, Foraker's system remained relatively unchanged, except that a number of property owners that were selling production to Foraker asked the Company for taps on its lines to provide them with a back-up as their own wells became depleted. Although Foraker installed such taps, the focus of its business remained service to its industrial customers. In late 1973, several of the industrial customers began to experience financial difficulties that limited operations and reduced their gas requirements. However, additional residential and commercial customers located adjacent to Foraker's lines requested gas service and were added to Foraker's customer base. Over the years, local production continued to decline while the number of customers continued to slowly increase. In 1989, Foraker connected to Columbia Gas Transmission (TCO) to ensure that it was able to continue to serve its customers' requirements.

Initially, Foraker served its sales customers under gas service agreements that were signed by each customer. The service agreements informed the customer of the quality of the service, which was interruptible, due to the limitation of local production, but this language was removed once the interconnection to interstate pipeline was made. The service agreement also contained a bundled price that was intended to recover both Foraker's fixed and variable costs. However, the bundled rate proved to be problematic when commodity prices were volatile, and the Company ultimately filed an application with the Commission to unbundle its rates and establish a gas cost recovery rate in Case Nos. 13-1910-GA-AEC and 13-1911-GA-GCR. With the approval of the Company's application in Case No. 13-1911-GA-GCR, Foraker submitted its first GCR filing in January 2014.

Operations

Currently, Foraker provides natural gas sales service to approximately 313 residential and 30 commercial customers and provides transportation service to 32 commercial and two industrial customers. For the 12 months ending December 2014, sales customers accounted for 39,733 MCF, or approximately 23% of annual throughput. Transportation customers accounted for 136,632 MCF, or approximately 77% of annual throughput. This is a significant difference from most small gas companies because, typically, the majority of a small gas company's throughput is sales volumes, with a small percentage of the throughput representing transportation volumes. However, as discussed above, Foraker was formed to transport local production to industrial end users, which accounts for the fact that the vast majority of its throughput is transportation volumes.

Foraker had in the past relied exclusively upon the availability of locally-produced gas to serve its customers' requirements. Local production in the area has declined dramatically over the years and now meets only approximately 9% of Foraker's requirements, with the majority of Foraker's supply delivered by TCO.

Foraker did not add any customers during the audit period.

Section III

Expected Gas Cost

The Staff has reviewed Foraker's calculations of its Expected Gas Cost (EGC) for the audit period. The EGC mechanism attempts to match future gas revenues for the upcoming quarter with the anticipated cost to procure gas supplies. It is calculated by extending twelve-month historical purchase volumes from each supplier by the rate that is expected to be in effect during the upcoming monthly GCR. The cost for each supplier is summed and the total is divided by twelve-month historical sales to develop an EGC rate to be applied to customer bills.

In reviewing the Company's calculations of the EGC, the Staff makes the following observations concerning supply sources, purchase volumes, and sales volumes.

Supply Sources

Foraker's entire system supply requirements came from a combination of local Ohio production and interstate deliveries. The majority (91%) of Foraker supply is delivered through interstate pipelines. For the audit period, Foraker received its interstate supplies through a Gas Supply Agreement with Constellation NewEnergy-Gas Division (Constellation). Under the terms of this agreement, Constellation delivered nominated volumes to a point of interconnect between Foraker and TCO at a NYMEX plus price, with any incremental supplies priced at the prevailing market rates. In November 2014, Foraker entered into a firm transportation agreement with TCO and, at the same time, its agreement with Constellation was modified to recognize that the Company was providing the transportation service on TCO. This modified agreement reduced the price that Foraker paid for gas to a NYMEX minus an amount.

Foraker also purchased 9% of its supplies from approximately twenty local producers. The Company reads the purchase meters monthly and remits the payment to the producers based on the reads and an agreed upon price per unit.

Purchase Volumes and Sales Volumes

As a result of its review, Staff determined that there was a significant difference between purchase and sales volumes during the period covered by the audit. After investigating the matter, the Company reported that these differences were primarily attributable to one industrial customer meter that was reading fast (*i.e.*, registering more gas as going through the meter than was actually being delivered). The effect of this meter malfunction was to overstate sales/special contract volumes for the audit period. Upon learning of this issue, Foraker replaced the meter of the industrial customer in question. In addition, the Company has indicated that, for purposes of this case, it will not seek any adjustment to the GCR rate to reflect the fact that the GCR rates in effect during the audit period were understated due to the fact that these per-Mcf rates was calculated based on total volumes that were overstated.

If Staff were to adjust its sales volumes to account for the overstatement in its Actual Adjustment, the Company would collect additional revenue from its sales customers. As this additional revenue is collected by the Company, it would then be credited to the special contract customer's bill. The Company informed Staff that it has reached an agreement with the customer as to a credit amount. However the credit does not recognize volumes from this audit period, and therefore, Staff used the volumes reported during the audit period in its calculation.

Recommendations

Staff recommends that the Company closely monitor the meter of its largest sales/special contract customer to ensure that the newly installed meter is registering accurately.

Section IV

Actual Adjustment

The Actual Adjustment reconciles the monthly cost of purchased gas with the EGC billing rate. It is calculated by dividing the total cost of gas purchases for each month of the three-month reporting quarter by the total sales for those respective months. The result is the unit book cost of gas, which is the cost incurred by the Company for procuring each MCF it sold that month. That unit book cost for each month is compared with the EGC rate that was billed for that quarter. The difference between each monthly unit cost and the EGC, whether positive or negative, is multiplied by the respective monthly jurisdictional sales to identify the total of under or over recoveries of gas costs. The monthly under or over recoveries are summed and divided by the twelve-month historic jurisdictional sales to develop an Actual Adjustment rate to be included in the GCR for four quarters.

Conclusions

Staff found errors in the Actual Adjustment calculation resulting from incorrectly reported purchase gas costs and the use of the wrong EGC rates in April and June 2014.

The difference between Staff's and Company's calculated AA are shown in Table 1. The difference for the audit period is $431 in the customers' favor.

Recommendation

The differences between the Staff and Company calculations in the AA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment in the customers' favor in the amount of $431 to be included in the next GCR filing following the Commission's Opinion and Order in this case.

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Actual Adjustment Calculation
Table 1

	Per Staff	Jan-14	Feb-14	Mar-14	AA	Difference
Quarter End:	Supply Cost $	$128,540	$144,643	$108,023		
	Jur. Sales MCF	9,492	7,819	5,125		
Mar-14	Total Sales MCF	31,317	25,899	21,986		
	Book Cost $/ MCF	$4.1045	$5.5849	$4.9133		
	EGC$/MCF	$4.6700	$6.0500	$5.1400		
	Diff. $/MCF	($0.5655)	($0.4651)	($0.2267)		
	Cost Diff. $	($5,368)	($3,637)	($1,162)	($10,166)	
	Per Company					
	Supply Cost $	$128,440	$144,543	$107,844		
	Jur. Sales MCF	9,492	7,819	5,125		
	Total Sales MCF	31,317	25,899	21,986		
	Book Cost $/ MCF	$4.1000	$5.5800	$4.9100		
	EGC$/MCF	$4.6700	$6.0500	$5.1400		
	Diff. $/MCF	($0.5700)	($0.4700)	($0.2300)		
	Cost Diff. $	($5,410)	($3,675)	($1,179)	($10,264)	$97

	Per Staff	Apr-14	May-14	Jun-14	AA	Difference
Quarter End:	Supply Cost $	$64,824	$46,645	$35,381		
	Jur. Sales MCF	2,153	1,183	537		
Jun-14	Total Sales MCF	15,884	14,243	11,173		
	Book Cost $/ MCF	$4.0811	$3.2749	$3.1666		
	EGC$/MCF	$4.7800	$4.7400	$4.3800		
	Diff. $/MCF	($0.6989)	($1.4651)	($1.2134)		
	Cost Diff. $	($1,505)	($1,733)	($652)	($3,890)	
	Per Company					
	Supply Cost $	$64,724	$46,545	$35,281		
	Jur. Sales MCF	2,153	1,183	537		
	Total Sales MCF	15,884	14,243	11,173		
	Book Cost $/ MCF	$4.0700	$3.2700	$3.1600		
	EGC$/MCF	$4.3800	$4.7400	$4.7800		
	Diff. $/MCF	($0.3100)	($1.4700)	($1.6200)		
	Cost Diff. $	($667)	($1,739)	($870)	($3,276)	($613)

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Actual Adjustment Calculation
Table 1

	Per Staff	Jul-14	Aug-14	Sep-14	AA	Difference
Quarter End: Sep-14	**Supply Cost $**	$34,454	$30,544	$33,345		
	Jur. Sales MCF	503	502	571		
	Total Sales MCF	10,765	11,522	10,689		
	Book Cost $/ MCF	$3.2006	$2.6509	$3.1196		
	EGC$/MCF	$4.3000	$3.8000	$3.8900		
	Diff. $/MCF	($1.0994)	($1.1491)	($0.7704)		
	Cost Diff. $	($553)	($577)	($440)	($1,570)	
	Per Company					
	Supply Cost $	$34,354	$30,444	$33,245		
	Jur. Sales MCF	503	502	571		
	Total Sales MCF	10,765	11,522	10,689		
	Book Cost $/ MCF	$3.1900	$2.6400	$3.1100		
	EGC$/MCF	$4.3000	$3.8000	$3.8900		
	Diff. $/MCF	($1.1100)	($1.1600)	($0.7800)		
	Cost Diff. $	($558)	($582)	($445)	($1,586)	$16
	Per Staff	Oct-14	Nov-14	Dec-14	AA	Difference
Quarter End: Dec-14	**Supply Cost $**	$49,146	$56,553	$93,843		
	Jur. Sales MCF	1,931	4,181	5,736		
	Total Sales MCF	15,258	18,241	22,997		
	Book Cost $/ MCF	$3.2210	$3.1003	$4.0807		
	EGC$/MCF	$4.0800	$3.9200	$4.4400		
	Diff. $/MCF	($0.8590)	($0.8197)	($0.3593)		
	Cost Diff. $	($1,659)	($3,427)	($2,061)	($7,147)	
	Per Company					
	Supply Cost $	$49,046	$56,453	$93,737		
	Jur. Sales MCF	1,931	4,181	5,736		
	Total Sales MCF	15,258	18,241	22,997		
	Book Cost $/ MCF	$3.2100	$3.0900	$4.0800		
	EGC$/MCF	$4.0800	$3.9200	$4.4400		
	Diff. $/MCF	($0.8700)	($0.8300)	($0.3600)		
	Cost Diff. $	($1,680)	($3,470)	($2,065)	($7,215)	$68
					Total	($431)

Section V

Refund and Reconciliation Adjustment

The refund and reconciliation adjustment (RA) is used to pass through the jurisdictional portion of refunds received from gas suppliers and adjustments ordered by the Commission. Annual interest of ten percent is applied to the net jurisdictional amount of the RA, which is then divided by twelve months of historic sales volumes to develop a volumetric rate to be included in the GCR calculation for four quarters.

Conclusions

During the audit period, Foraker had no supplier refunds or Commission-ordered reconciliations.

Recommendations

Staff has no recommendations in this section.

Section VI

Balance Adjustment

The Balance Adjustment (BA) mechanism corrects for under- or over- recoveries of the previously calculated AAs, RAs and BAs. The BA is calculated by subtracting the product of the respective AA, RA, or BA rate and the sales to which those rates were applied from the dollar amounts of the respective AA, RA, or BA previously included in the GCR and used to generate those adjustment rates. Since those adjustment rates were derived by dividing the dollar amounts by historic sales, the BA calculation depicts the differences in revenues generated for each of these adjustment mechanisms using actual versus estimated sales. The sum of the difference for the AA, RA, and BA calculations is the total BA for the quarter which is divided by historic three-month sales to obtain a new BA rate to be included in the GCR.

Errors detected in the BA are generally the result of incorrectly reported sales volumes, but also may be due to selecting an incorrect rate from previous AA, RA, or BA calculations.

Conclusions

Because Foraker initiated the filing of a GCR in January 2014, the Company has yet to calculate its first BA.

Recommendations

Staff has no recommendations in this section.

Section VII

Unaccounted For Gas

Unaccounted for Gas (UFG) is the difference between gas purchases and gas sales. It is calculated on a twelve-month basis, ending in one of the low usage summer months, so as to minimize the effects of unbilled volumes on the calculation. The GCR Rule, Chapter 4901:1-14 (CC) (1), Administrative Code, specifies that the Commission may adjust the Company's future GCR rates as a result of UFG above a reasonable level, presumed to be no more than five percent (5 %) for the audit period.

Conclusions

As noted above in Section III, Staff found differences between purchase and sales volumes associated with metering errors. No further recommendations are being made in this area.

Recommendations

No further recommendations are being made in this area.

Section VIII

Customer Billing

An important component in the GCR process is the proper application of GCR rates to customer bills. In order to determine that Foraker properly applied its GCR and base rates during the audit period, Staff reviewed the Company's customer billing records. Staff excluded special contract customers from the customer billing sample, then, using a random sampling, Staff selected customers from the Company's monthly billing registers and recalculated their bills for several months of the audit period. Staff then compared its recalculated bills to the customer billing register to determine any difference. Staff then requested copies of bills that were sent to customers to verify that the Company billed amount per the customer register matched the bills submitted to the customers.

Conclusions

Staff found only minor rounding differences when comparing its recalculated bills to the Company's register and found no discrepancies between the Company's billing register and the bills submitted to its customers.

Recommendations

Staff has no recommendations for the Customer Billing section.

Section IX

Management Issues

This was Foraker's initial gas cost recovery (GCR) financial audit in which the Company was confronted with requests that they had not needed to respond to in the past as they operated under bundled rates previously. With the introduction of the GCR, the Company had to identify purchase costs and volumes of specific customer groups.

Conclusions

The new requirements brought to the Company's attention the deficiencies in its documentation that was necessary to track its gas costs and the associated revenues from various customers.

Recommendations

Staff recommends that the Company continue to examine its documentation to ensure that it is capable of providing the necessary support for its GCR calculations.