

In the Matter of the Commission's)
Investigation into Ohio Rural Natural Gas) Case No. 16-1578-GA-COI
Co-op and Related Matters)

I. INTRODUCTION

Staff’s Report alleges that Ohio Rural Natural Gas Co-op (“ORNG Co-op”) has failed to comply with several of this Commission’s pipeline safety regulations. The alleged violations can be grouped into four categories—those related to: (1) the March 10, 2015, Notice of Probable Noncompliance (the “March 2015 NPN”); (2) the December 1, 2015 Notice of Probable Noncompliance (the “December 2015 NPN”) and the associated Compliance Order (the “December 2015 Compliance Order”); (3) the April 5, 2015, Notice of Probable Noncompliance (the “April 2016 NPN”) and the associated Compliance Order (the “April 2016 Compliance Order”); and (4) the May 2016 audit of ORNG Co-op (the “May 2016 Audit”).

The testimony of Darryl Knight, ORNG Co-op's President and General Manager, demonstrates that ORNG Co-op has already remedied the vast majority of the instances of noncompliance Staff identified. (*See* Prefiled Testimony of Darryl Knight, at 6–23 (ORNG Co-op Exhibit 1)). ORNG Co-op is working diligently to remedy the remaining instances of noncompliance and to ensure future compliance. (*See* ORNG Co-op Exhibit 1, at 24:17–22.)

Given ORNG Co-op's good faith efforts to remedy the noncompliance issues, the remedies Staff seeks that go beyond requiring regulatory compliance are unreasonable. First, given that ORNG Co-op is not a willful and persistent violator of this Commission's regulations

as discussed below, Staff's request to declare that ORNG Co-op's facilities are hazardous to life and its request that ORNG Co-op be ordered to cease all pipeline construction and operations are not appropriate. (*See* Staff Report, at 20–21 (Staff Exhibit 1).) ORNG Co-op asks the Commission to deny those requests, but grant Staff's request to order it to work with Staff to remedy those instances of noncompliance still outstanding. ORNG Co-op also asks the Commission to approve its proposal to uprate its Ellsworth Road system as an appropriate response to the April 2016 Compliance Order regarding that system, (ORNG Co-op Exhibit 1, at 17:8–11), and.

Finally, analysis of the R.C. § 4905.95(B)(1)(b) factors the Commission must evaluate to determine a forfeiture amount does not support the \$600,000.00 forfeiture Staff seeks. Not only does Staff's requested forfeiture ignore ORNG Co-op's good faith efforts at compliance, but such a fine will put ORNG Co-op out-of-business, leaving seventeen residential, rural customers, who did not have access to natural gas service before receiving it from ORNG Co-op, without the ability to obtain service. (Hearing Tr. at 37:17–24.) ORNG Co-op, however, recognizes that it has had several noncompliance issues and respectfully submits that a forfeiture of no more than \$50,000.00, with \$40,000 of that amount held in abeyance, is appropriate.

II. ARGUMENT

ORNG Co-op's compliance efforts regarding each of the four noncompliance groupings identified above are first addressed. ORNG Co-op then discusses the relief Staff seeks in this proceeding.

A. ORNG Co-op's Compliance with the Regulatory Issues Staff Identified

1. The March 2015 NPN (the Hallock-Young Lyntz Road System)

As detailed in Mr. Knight's direct testimony, all instances of noncompliance identified in the March 2015 NPN and Staff's corresponding July 24, 2015 letter to ORNG Co-op have now been corrected as they relate to the system at issue there—the Hallock-Young Lyntz-Road System. (*See* ORNG Co-op Exhibit 1, at 7:9–16; *see also* Attachment DK-17 to ORNG Co-op Exhibit 1, at page 19.) At the hearing, Staff did not contest that this system is in compliance.

Nor did Staff contest Mr. Knight's testimony that ORNG Co-op's Public Awareness Manual and Drug and Alcohol Program are also now in compliance with PUCO regulations. (*See* ORNG Co-op Exhibit 1, at 7:9–21, and Attachments DK-9 and DK-12 thereto.) And, Staff did not question the completeness of any of ORNG Co-op's operational manuals, except for its Operator Qualification manual, which is missing “covered task evaluation forms” for approximately 73 of the approximately 75 covered tasks identified in it. (Hearing Tr. at 59:20, 61:19–62:8.) ORNG Co-op will expeditiously correct this remaining item of noncompliance.

In sum, all issues identified in the March 2015 NPN and in Staff's July 24, 2015 letter to ORNG Co-op have now been corrected, except for the completion of one section of ORNG Co-op's Operator Qualification manual.

2. The December 2015 NPN and Compliance Order (Tin Man Storage System)

ORNG Co-op has also remedied all the instances of noncompliance that Staff observed at the Tin Man Storage facility. (ORNG Co-op Exhibit 1, at 10:3–13:15.) Indeed, Staff's Report itself notes that “Staff investigated and confirmed that ORNG has met the[] terms [of the December 2015 Compliance Order] with the exception of meeting the Public Awareness requirements of 49 CFR 192.616.” (Staff Exhibit 1, at 17.) ORNG Co-op has since corrected

this issue with the implementation of its Public Awareness program, as noted above. (*See* Attachment DK-9 to ORNG Co-op Exhibit 1.)

ORNG Co-op has also complied with all of the directives contained in the December 2015 Compliance Order except for two items. First, ORNG Co-op does not have records showing that it inspected its regulator stations for correct design and correction of any deficiencies. ORNG Co-op has three regulator stations: Hallock-Young, Ellsworth Road, and Tin Man Storage. (Hearing Tr. at 72:3–8.) While ORNG Co-op does not have records that establish these inspections, it replaced the Hallock-Young regulator station and that station is now in compliance. (Hearing Tr. at 73:7–18.) In addition, the Tin Man regulator station has been inspected and approved by Staff, even though ORNG Co-op cannot presently locate its inspection records for this station. (*See* Staff Exhibit 1, at 4.) As Mr. Knight testified, ORNG Co-op's prior compliance manager kept a disorganized office which is likely why ORNG Co-op cannot locate this record. (*See* ORNG Co-op Exhibit 1, at 20:14–16.) Thus, while ORNG Co-op does not have paperwork memorializing its compliance with the December 2015 Compliance Order's directive to inspect its regulator stations, even Staff acknowledges that its Hallock-Young and Tin Man Storage stations are otherwise compliant, and ORNG Co-op will document its inspection of all three regulator stations as soon as possible.

Second, ORNG Co-op does not presently have records showing that it has established MAOPs for its Reynolds Road, Williams Road Barn, OsAir, Oak Street, Muzic, and Williams Road Steel-Head Run systems. As Mr. Knight testified, though, it is not possible to pressure test the Williams-Road Steel-Head run system. (Hearing Tr. 74:1–75:6.) ORNG Co-op continues to work in good faith to correct this issue for the remainder of the identified systems.

3. The April 2016 NPN and Compliance Order (Duck Creek and Ellsworth Road Systems)

The April 2016 NPN alleged that the pipe joints in ORNG Co-op's Duck Creek and Ellsworth Road systems were improperly installed, that the pipe fusion equipment ORNG Co-op was using was deficient, and that ORNG Co-op's welding manual was deficient. The April 2016 Compliance Order directed ORNG Co-op to re-qualify its personnel for the butt fusion procedure and to excavate, cutout, and replace all joints in the two systems.

ORNG Co-op corrected the issues with its welding manual and fusion equipment, and Staff has not disputed compliance with these items. (*See* ORNG Co-op Exhibit 1, at 14:11–15:11 and Attachment DK-8 thereto.) ORNG Co-op also immediately re-qualified its personnel even though its personnel were actually qualified at the time. (Hearing Tr. at 77:14–22; ORNG Co-op Exhibit 1, at 14:11–19.)

In response to the April 2016 Compliance Order's directive to cutout and replace all buried joints in the Duck Creek system, ORNG Co-op made a counterproposal to dig up one-quarter of the joints and, if any were defective, to dig up the remainder and replace them. In response to the directive to cutout and replace all buried joints in the Ellsworth Road system, ORNG Co-op proposed to perform pressure testing and leak surveys to determine whether there were any issues with the system given that there was no evidence that the joints were defective.

ORNG Co-op has not placed its Duck Creek Road and Ellsworth Road systems in service while it waited for Staff's response to its counterproposals. Staff still had not responded to ORNG Co-op's counterproposals when prefiled direct testimony was due in this matter. Nonetheless, in a show of good faith Mr. Knight stated in his direct testimony that if Staff rejected its counterproposals ORNG Co-op would excavate and replace any defective joints in the Duck Creek Road system as Staff had requested, and ORNG Co-op would update the

Ellsworth Road system, which is a more aggressive action than ORNG Co-op had initially proposed. (ORNG Co-op Exhibit 1, at 17:8–11.)

Because Staff did not formally reject ORNG Co-op's counterproposals until the hearing in this matter, (Hearing Tr., at 16:21–25), ORNG Co-op will wait for this Commission's order on how to proceed regarding these systems.

4. The May 2016 Audit

At the hearing Staff did not dispute that ORNG Co-op corrected the majority of the instances of noncompliance identified in Staff's May 2016 Audit. Further, based on Mr. Knight's testimony, only 3 of the 21 items identified in the audit require additional attention. Specifically, as discussed above ORNG Co-op still has to provide MAOP calculation records for some of its systems. ORNG Co-op also needs to complete the qualified task evaluation forms for its Operator Qualification manual. And, ORNG Co-op still needs to provide emergency training to its personnel. ORNG Co-op is in the process of correcting these outstanding issues of noncompliance.

Staff did question Mr. Knight about three additional items from the May 2016 Audit, but these items have been adequately addressed. First, ORNG Co-op admits that it cannot locate its 2015 cathodic protection monitoring records, which were maintained by compliance officers that are no longer with ORNG Co-op. (ORNG Co-op Exhibit 1, at 20:14–16; *see also* Hearing Tr. at 89:19–90:7.) ORNG Co-op will continue to perform its cathodic protection monitoring and testing in accordance with its O&M manual. Thus, the absence of the 2015 records is not a present concern because ORNG Co-op's continuing inspections will show if there is any current issue with its cathodic protection systems.

Second, Staff questioned Mr. Knight regarding proof that the Fracci Court system was cathodically protected. (Hearing Tr. at 90:7–20.) Mr. Knight admitted that the picture attached to his testimony did not demonstrate that the system was cathodically protected, but he testified that a 17-pound anode bag had been installed. (Hearing Tr. at 90:17–91:16.) If Staff were to inspect the system, it would observe that it is now properly protected. Thus, this instance of noncompliance has been corrected.

Finally, Staff questioned Mr. Knight about the absence of cathodic testing records for 2016. (Hearing Tr. at 92:4–93:9.) ORNG Co-op did present cathodic testing records for its Fracci Court system. (Hearing Tr. at 95:21–24.) While ORNG Co-op did not present cathodic testing records for the remainder of its systems, under ORNG Co-op’s O&M manual, cathodic testing is not scheduled to occur until September of each year. (*See* Section 8 of ORNG Co-op O&M Manual (Attachment DK-4 to ORNG Co-op Exhibit 1).) Thus, that ORNG Co-op was unable to produce cathodic testing records for 2016 by the September 6, 2016 hearing date in this matter is not an instance of noncompliance.

In sum, of 21 noncompliance items identified in Staff’s 2016 May audit, only 3 require additional attention. ORNG Co-op continues to work in good faith to correct these items.

B. Staff’s Requested Relief

Staff asks that this Commission order ORNG Co-op to fully cooperate with Staff in returning to and maintaining compliance with the commission’s pipeline safety regulations. (Staff Exhibit 1, at 21.) This request for relief is obviously appropriate. Staff also asks the Commission to declare ORNG Co-op’s facilities to be hazardous to life, to order ORNG Co-op to cease all operations and new construction, and to assess a \$600,000 forfeiture against ORNG

Co-op. (Staff Exhibit 1, at 20–21.) This requested relief is not supported by the facts of this case and should not be granted

First, Staff alleges that ORNG Co-op's failure to timely correct some of the instances of noncompliance shows that ORNG Co-op is a willful and persistent violator of Commission regulations. However, as Mr. Knight testified, he has done everything in his power to safely and expeditiously correct all instances of noncompliance. (ORNG Co-op Exhibit 1, at 23:19–24:22.) At no time did Mr. Knight direct ORNG Co-op personnel not to cooperate with Staff or to ignore any pipeline safety regulations. (*Id.*) While ORNG Co-op failed to timely correct some instances of noncompliance and while a few noncompliance issues remain to be corrected, these failures were not willful and were simply oversights that ORNG Co-op made as a new cooperative utility that has been building and educating its staff over the past eighteen months. (*Id.*) Further, Mr. Knight was absent from ORNG Co-op from August of last year to March of this year when the most serious issues of noncompliance occurred. (*Id.*) Since returning to ORNG Co-op, Mr. Knight has devoted his full attention to its compliance efforts. (*Id.*) Given ORNG Co-op's good faith efforts to achieve compliance, Staff's allegation that ORNG Co-op is a willful and persistent violator of the Commission's pipeline safety regulations is not founded.

Second, ORNG Co-op has corrected nearly all operational issues Staff identified with its systems and will implement any action this Commission orders regarding its Duck Creek and Ellsworth Road systems. Therefore, it is not true that ORNG Co-op's facilities are hazardous to life and property, and there is no basis to order ORNG Co-op to cease operation of its facilities or halt new construction.

Finally, Staff's request for the assessment of a \$600,000.00 forfeiture against ORNG Co-op is not appropriate. In determining the amount of a forfeiture for a regulatory noncompliance, the Commission must consider all of the following factors:

- (i) The gravity of the violation or noncompliance;
- (ii) The operator's history of prior violations or noncompliances;
- (iii) The operator's good faith efforts to comply and undertake corrective action;
- (iv) The operator's ability to pay the forfeiture;
- (v) The effect of the forfeiture on the operator's ability to continue as an operator;
- (vi) Such other matters as justice may require.

R.C. 4905.95(B)(1)(b). Analysis of these factors demonstrates that a much smaller forfeiture is appropriate in this case.

1. The gravity of the violation or noncompliance.

The first factor to consider is the gravity of the violation or noncompliance. ORNG Co-op does not dispute that some of the noncompliance issues Staff observed were concerning. However, no instance of noncompliance resulted in injury to person or property. Further, the majority of instances of noncompliance related to recordkeeping matters. Thus, the first factor does not weigh in favor of a significant penalty.

2. The operator's history of prior violations or noncompliances.

This factor that is not relevant because the noncompliance issues discussed in Staff's report constitute the entirety of the noncompliance issues ORNG Co-op has experienced since it began operations approximately nineteen months ago.

3. The operator's good faith efforts to comply and undertake corrective action.

As discussed above, ORNG Co-op's focus since Mr. Knight returned to his position of President and General Manager has been compliance with the Commission's regulations. Due to the number of issues of noncompliance Staff observed, it has taken a fair amount of time to correct some of these issues. However, at no point has Mr. Knight ever ignored Staff or flouted

the Commission's regulations. Quite the opposite—in fact, it was Staff that eventually refused to talk to Mr. Knight to work toward achieving full compliance with the Commission's regulations, not vice-versa. (*See* Hearing Tr. at 78:23–79:1.) Thus, under the direction of Mr. Knight ORNG Co-op has demonstrated its commitment to undertaking, in good faith, all corrective actions necessary to comply with PUCO regulations. Mr. Knight has also have made personnel training a priority so that when the day comes that he steps away from ORNG Co-op, there will be no reoccurrence of the events that took place in his absence. (ORNG Co-op Exhibit 1, at 24:17–22.)

4. The operator's ability to pay the forfeiture.

As ORNG Co-op's July 31, 2016 balance sheet demonstrates, it is impossible for ORNG Co-op to pay a forfeiture of \$600,000. (Attachment DK-31 to ORNG Co-op Exhibit 1.) ORNG Co-op is operating at a deficit, and the only capital assets it has are its pipeline systems and equipment. ORNG Co-op's balance sheet shows that ORNG Co-op owes \$628,201.85 of long-term debt and \$279,749.74 of current liabilities, such as accounts payable. In addition, ORNG Co-op shows a *negative* net income of \$302,969.43 and *negative* retained earnings of \$350,426.89. (*Id.*) Based on its financial state, ORNG Co-op simply cannot pay a forfeiture anywhere close to the amount Staff seeks.

5. The effect of the forfeiture on the operator's ability to continue as an operator.

Given ORNG Co-op's financial state, a forfeiture of the magnitude that Staff seeks will force ORNG Co-op to cease operations and declare bankruptcy, leaving several Northeast Ohio residential, rural customers without the ability to obtain natural gas service.

6. Conclusion.

While ORNG Co-op has unfortunately failed to demonstrate compliance with the Commission's pipeline safety regulations on several occasions, these instances of noncompliance

did not result in any injury to property or persons. Moreover, ORNG Co-op has been engaged in good faith efforts to remedy the instances of noncompliance, and the forfeiture that Staff seeks would put ORNG Co-op out of business, leaving several residential customers without a means of obtaining natural gas service. Ohio Rev. Code § 4905.95(B)(1)(b)'s factors therefore do not support a \$600,000 forfeiture. Instead, ORNG Co-op submits that a \$50,000 forfeiture with \$40,000 held in abeyance pending demonstration of full compliance with the Commission's pipeline safety regulations is appropriate. Two cases support this conclusion.

First, in *In the Matter of the Investigation of Columbia Gas of Ohio, Inc. Relative to Its Compliance with the Natural Gas Pipeline Safety Standards and Related Matters*, Case No. 15-1351-GA-GPS, Finding and Order (Jan. 20, 2016), the Commission approved Staff and Columbia Gas of Ohio's ("Columbia Gas's") stipulation to a \$400,000.00 forfeiture, with \$200,000.00 of that forfeiture held in abeyance pending completion of the remedial measures ordered in the case. *Id.* at 6–7. The regulatory violation in that case resulted in a house located in Upper Arlington, Ohio exploding, destroying that house and rendering seven additional homes uninhabitable, while structurally damaging yet another twenty homes, resulting in property damages in excess of \$9,000,000.00. *Id.* at 1–2. The explosion was caused by Columbia Gas's failure to follow its O&M procedures in the abandonment of a service line, which permitted natural gas to build up against the foundation of the house that exploded. *Id.* at 2. This Commission found the \$400,000.00 forfeiture, with \$200,000.00 of that forfeiture held in abeyance, was appropriate given the severity of the violation. *Id.* at 7.

The Columbia Gas case resulted in more than \$9,000,000.00 damage, and undoubtedly would have killed any occupants of the residence that exploded had they been home. ORNG Co-op's issues of noncompliance resulted in \$0.00 of property damage and not one instance of

natural gas combustion. Still, in this case Staff seeks a fine greater than that which it levied against Columbia Gas, where Columbia Gas's regulatory violation essentially blew up a block of residential real property. The Columbia Gas case therefore demonstrates that the fine Staff seeks in this case is unreasonable.

In the Matter of the Investigation of Ohio Cumberland Gas Company Relative to Its Compliance with the Natural Gas Pipeline Safety Standards and Related Matters, Case No. 06-640-GA-GPS, Finding and Order, at 3 (Oct. 4, 2006) ("*Ohio Cumberland*"), a relatively comparable case to the instant one, also supports the forfeiture amount ORNG Co-op suggests. In *Ohio Cumberland*, the Commission approved a stipulation between the Ohio Cumberland Gas Company ("*Ohio Cumberland*") and Staff which imposed a forfeiture of \$20,000 on Ohio Cumberland, with \$12,500 of that amount to be held in abeyance for four years, to be imposed if Ohio Cumberland again experienced the violations noted in the stipulation. *Id.* at 3. The forfeiture assessed resulted from a Staff audit that revealed Ohio Cumberland had failed to conduct leak surveys for 621 jurisdictional service lines, had failed to timely re-qualify mechanical fitting and plastic fusion, had failed to timely inspect seven primary relief valves, had failed to timely inspect 13 critical valves, and permitted covered task qualifications to expire for its personnel. *Id.* at 1. The classes of violations Ohio Cumberland demonstrated are similar in nature and magnitude to ORNG Co-op's noncompliance issues. However, ORNG Co-op is a much smaller company than Ohio Cumberland, which serves approximately 2,035 customers. *See* Supp. Schedules to 2015 Annual Report of Ohio Cumberland Gas Company, 89-8014 2015 Supp 3.Doc, at 62, available at <http://www.puco.ohio.gov/apps/directorylister/annualreports.cfm?path=2015%5CNatural%20Gas%20Distribution%20Companies%5C&filearea=3>. Further, unlike ORNG Co-op, Ohio

Cumberland turns a net profit—\$245,608.00 in 2015—with assets of \$2,455,598 and no longterm debt. *Id.* at 9–12. Ohio Cumberland could therefore easily pay the net \$7,500.00 forfeiture not held in abeyance in its case without any risk to its continued operations.

The forfeiture of \$50,000.00, with \$40,000.00 held in abeyance that ORNG Co-op proposes is obviously much higher than the forfeiture Staff agreed to in *Ohio Cumberland*. ORNG Co-op's proposal thereby recognizes that it experienced additional noncompliance issues compared to Ohio Cumberland, some of which persisted over a period of time. When considering that Ohio Cumberland operates at a profit with substantial assets, whereas ORNG Co-op is operating at a deficit and its liabilities far exceed its assets, the forfeiture ORNG Co-op proposes is a much more severe penalty than was assessed in *Ohio Cumberland*. Finally, ORNG Co-op's proposed \$10,000 fine due immediately will still put extreme strain on ORNG Co-op's operations, thereby making clear that the Commission takes these instances of noncompliance very seriously. And, the \$40,000 fine held in abeyance will ensure that ORNG Co-op timely remedies the instances of noncompliance that still need to be addressed.

III. CONCLUSION

For the foregoing reasons, ORNG Co-op respectfully requests that the Commission deny Staff's request to declare that ORNG Co-op's facilities are hazardous to life and deny Staff's request that ORNG Co-op be ordered to cease all pipeline construction and operation. ORNG Co-op respectfully requests that the Commission grant Staff's request to order ORNG Co-op to continue to work with Staff to remedy those noncompliance issues still outstanding. ORNG Co-op further requests that the Commission approve its proposal to uprate the Ellsworth Road System in response to the April 2016 Compliance Order. Finally, ORNG Co-op respectfully

requests that the Commission impose a fine of no more than \$50,000.00, with \$40,000.00 of that fine held in abeyance pending ORNG Co-op's completion of its compliance efforts.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The PUCO's e-filing system will serve notice of this filing upon counsel for the for the Complainant, the Ohio Consumers' Council, and the Staff of the Public Utilities Commission of Ohio.

Further, I hereby certify that a true and accurate copy of the foregoing was served upon the following on this September 23, 2016, by electronic mail:

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