

THE PUBLIC UTILITIES COMMISSION OF OHIO

**IN THE MATTER OF THE REGULATION OF
THE PURCHASED GAS ADJUSTMENT
CLAUSE CONTAINED WITHIN THE RATE
SCHEDULES OF PIEDMONT GAS
COMPANY AND RELATED MATTERS.**

CASE No. 16-213-GA-GCR

**IN THE MATTER OF THE UNCOLLECTIBLE
EXPENSE RIDER OF PIEDMONT GAS
COMPANY AND RELATED MATTERS.**

CASE No. 16-313-GA-UEX

OPINION AND ORDER

Entered in the Journal on October 5, 2016

I. SUMMARY

{¶ 1} The Commission approves and adopts a Stipulation and Recommendation that resolves all issues relating to the gas cost recovery and uncollectible expense audits of Piedmont Gas Company.

II. PROCEDURAL BACKGROUND

{¶ 2} Piedmont Gas Company (Piedmont or Company) is a natural gas company as defined in R.C. 4905.03 and a public utility under R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission. Piedmont is also a natural gas company within the meaning of R.C. 4905.302(C), pursuant to which this Commission promulgated rules for a uniform purchased gas adjustment clause to be included in the schedules of gas or natural gas companies subject to the Commission's jurisdiction. These rules, which are contained in Ohio Adm.Code Chapter 4901:1-14, separate the jurisdictional cost of gas from all other costs incurred by a gas or natural gas company and provide for each company's recovery of these costs.

{¶ 3} R.C. 4905.302 also directs the Commission to establish investigative procedures, including periodic reports, audits, and hearings; to examine the arithmetic

and accounting accuracy of the gas costs reflected in a company's gas cost recovery (GCR) rates; and to review each company's production and purchasing policies and their effect upon these rates. Pursuant to such authority, the Commission adopted Ohio Adm.Code 4901:1-14-07, which identifies how periodic financial audits of gas or natural gas companies shall be conducted. Ohio Adm.Code 4901:1-14-08(A) requires the Commission to hold a public hearing at least 60 days after the filing of each required audit report. Ohio Adm.Code 4901:1-14-08(C) specifies that notice of the hearing be published in one of three ways, at least 15 days, but not more than 30 days, prior to the date of the scheduled hearing.

{¶ 4} On October 15, 2010, the Commission approved an uncollectible expense (UEx) mechanism set at \$0.02385 per thousand cubic feet (Mcf) for Piedmont. *In re Piedmont Gas Co.*, Case No. 09-1862-GA-AIR, Opinion and Order (Oct. 15, 2010).

{¶ 5} On February 24, 2016, the Commission initiated these proceedings, established the financial and UEx audit periods, established the date upon which the financial and UEx audit reports must be filed, and directed Staff to conduct the audits. The Commission also scheduled a hearing for June 14, 2016, and directed Piedmont to publish notice.

{¶ 6} On April 15, 2016, Staff filed its audit reports in the captioned cases for the designated audit periods. The audit reports include the financial audit report for Piedmont's GCR mechanism (Commission-Ordered Ex. 1) and the audit report for Piedmont's UEx mechanism (Commission-Ordered Ex. 2). The GCR audit was for the period December 1, 2013, to November 30, 2015. The UEx audit was for the period January 1, 2014, to December 31, 2015.

{¶ 7} On June 10, 2016, Piedmont and Staff filed a Stipulation and Recommendation (Stipulation) that would resolve all issues in these dockets (Jt. Ex. 1).

{¶ 8} On June 14, 2016, the public hearing was conducted at the offices of the Commission.

III. DISCUSSION

A. GCR Audit

{¶ 9} Piedmont provides natural gas utility service to approximately 1,946 customers. Of these customers, 1,703 are residential, 230 are commercial, and 13 are industrial sales customers. Piedmont also provides transportation service to 13 customers. Piedmont's service territory is comprised of Coshocton, Guernsey, Harrison, Holmes, and Tuscarawas counties. (Commission-Ordered Ex. 1 at 4.)

1. Expected Gas Cost

{¶ 10} In its GCR audit report, Staff reviewed Piedmont'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 12-month historical purchase volumes from each supplier by the rate that is expected to be in effect during the upcoming period. The cost for each supplier is summed and the total is divided by 12-month historical sales to develop an EGC rate to be applied to customer bills. (Commission-Ordered Ex. 1 at 6.)

{¶ 11} In Staff's review of the Company's EGC calculations, it considered purchase volumes and sales volumes. Staff noted that Piedmont's system supply requirements come from nine local producers, and two suppliers, for its deliveries from The East Ohio Gas Company d/b/a Dominion East Ohio (DEO), and Columbia Gas Transmission (TCO). (Commission-Ordered Ex. 1 at 6.)

{¶ 12} In its review of purchase and sales volumes, Staff verified that Piedmont purchased 401,303 Mcf of gas from the local producers and gas suppliers during the first

year of the audit and purchased 400,478 Mcf of gas during the second year of the audit. There were six months during the audit period where Staff's purchase volumes differed from the volumes posted in the Company's actual adjustment (AA) filing. The difference was primarily due to an industrial customer arranging for its own supplies with a local producer without informing Piedmont of this change. The result was that Piedmont and the customer both paid the local producers for the same volumes. Once the error was detected, Piedmont advised the local producer, who then refunded the money back to Piedmont. Staff has accounted for the decreased purchased volumes and purchase costs for the months of December 2013 through May 2014 in its AA calculations. (Commission-Ordered Ex. 1 at 6.)

{¶ 13} In sales volumes, Staff verified that Piedmont sold 414,257 Mcf of gas to its customers during the first year of the audit and 421,941 Mcf during the second year of the audit period. Staff found three months in which Piedmont's filed sales volumes differed from those verified by Staff. Staff has accounted for these sales volumes differences in its AA calculation. Staff recommends that Piedmont re-verify purchase and sales volumes prior to making its monthly GCR filings with the Commission. (Commission-Ordered Ex. 1 at 6-7.)

2. Actual Adjustment

{¶ 14} The AA 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 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. The unit book cost for each month is compared with the EGC rate, which 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 under- or over-recoveries of gas costs. The

monthly under- or over-recoveries are summed and divided by the 12-month historic jurisdictional sales to develop an AA rate to be included in the GCR for four quarters. Errors in the AA calculation can result from incorrectly reported purchase gas costs, errors in the stated sales volumes, and the use of the wrong EGC rate. (Commission-Ordered Ex. 1 at 8.)

{¶ 15} Staff reviewed the applicable purchase invoices and monthly billing registers and found that purchase costs were incorrect in eight months, sales volumes were incorrect in three months, and the wrong EGC rate was applied in two months. Staff stated that these errors are not self-correcting through the GCR mechanism. Staff, therefore, recommended that the Commission order a reconciliation adjustment (RA) of \$42,651.66 in Piedmont's favor to correct for the differences that were identified. Staff added that the adjustment should be applied in the first GCR filing following the Opinion and Order in these cases. (Commission-Ordered Ex. 1 at 8.)

3. Refund and Reconciliation Adjustment

{¶ 16} Staff pointed out that Piedmont has interstate and local distribution company gas supplies, but has had no refunds from suppliers or interstate pipelines during the audit periods (Commission-Ordered Ex. 1 at 13).

{¶ 17} Staff adds that, as a result of the Commission's Opinion and Order in Piedmont's last GCR audit proceeding, the Commission ordered Piedmont to implement an RA of \$11,643.00, to address the differences between Staff's and the Company's AA and Balance Adjustment (BA) calculations. *In re Piedmont Gas Co.*, Case No. 14-213-GA-GCR, Opinion and Order (Sept. 10, 2014). Staff found that the RA of \$11,643.00 was properly included in the GCR rate for the recommended 12 months. Staff also noted that it has no recommendations regarding the RA at this time. (Commission-Ordered Ex. 1 at 13.)

4. Balance Adjustment

{¶ 18} The BA mechanism corrects for under-recoveries or over-recoveries of previously calculated AAs and RAs. The BA is calculated by subtracting the product of each respective AA and RA, and the sales to which those rates were applied, from the dollar amounts of the respective AA or RA 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 historical sales. The sum of the differences for the AA and RA calculations is the total BA, which is then incorporated into the AA calculation. (Commission-Ordered Ex. 1 at 14.)

{¶ 19} Errors detected in the BA are generally the result of incorrectly reported sales volumes, but also may be due to selecting an incorrect AA or RA rate for the purpose of calculating a given quarter's BA. Staff found sales volumes were incorrect for three months in the audit period. Because the differences found by Staff are not self-correcting through the GCR mechanism, Staff recommended an RA of (\$20,247.00)¹ in the customers' favor. The adjustment should be applied in the first GCR filing following the Opinion and Order in these cases. (Commission-Ordered Ex. 1 at 14.)

5. Unaccounted-For Gas

{¶ 20} Unaccounted-for gas (UFG) is the difference between gas purchase volumes and sale volumes. It is calculated on a 12-month basis, ending in one of the low usage summer months to minimize the effects of unbilled volumes on the calculation. Ohio Adm.Code 4901:1-14-08(F)(3) specifies that the Commission may adjust a company's future GCR rates as a result of UFG above a reasonable level, presumed to be no more than five percent for the audit period. (Commission-Ordered Ex. 1 at 19.)

¹ Numbers in parentheses indicate negative numbers.

{¶ 21} Staff performed an analysis of the UFG for the 12-month periods ending November 2014 and November 2015. Staff used the total sales volume deliveries divided by the total purchase volume receipts to arrive at the system's average UFG rates. On Piedmont's system, transportation customers' purchases are equal to transportation customers' sales. These volumes are excluded from the UFG calculation. (Commission-Ordered Ex. 1 at 19.)

{¶ 22} Staff noted that the Commission's rules allow for up to five percent UFG. Staff's report reveals a negative UFG level, indicating a difference in the temperature compensated sales meters and the non-temperature compensated purchase meters. Staff stated that the temperature compensated meters tend to be more accurate, regardless of temperature changes. Staff stated that it has no recommendations regarding UFG. (Commission-Ordered Ex. 1 at 19.)

6. Customer Billing

{¶ 23} To determine whether Piedmont properly applied its GCR and base rates during the audit period, Staff reviewed Piedmont's customer billing records. Using a random sampling, Staff selected customers from the Company's monthly billing registers and recalculated their bills. Staff then compared its recalculated bills to the customer billing register to determine if there were any differences. Staff found that the Company incorrectly billed customers for two months during the audit period. For the months of March 2014 and April 2015, Piedmont billed the prior month's GCR rate in error. Staff accounted for the errors in its AA calculation. For its recommendation, Staff states that Piedmont should re-verify the correct GCR rate prior to billing customers. (Commission-Ordered Ex. 1 at 20.)

B. UEX Audit

{¶ 24} In its UEX audit report, Staff notes that Piedmont reported that, for the current audit period, 27 accounts totaling \$7,274.70 were written off as bad debt, with \$651.82 recovered from current and previously written-off accounts during this period (Commission-Ordered Ex. 2 at 2).

{¶ 25} In determining Piedmont's UEX, Staff reconciled the 2014 and 2015 account balances that were written off. Piedmont calculated its write-offs each month, recognizing only those accounts where the customer had moved from the billing address or did not pay on the account for at least 60 days. Next, Staff analyzed Piedmont's practice for writing off a bad debt by determining the date of a customer's last payment and the date the account was actually written off. For 2014, Staff determined that the average amount of days between the last payment and the write-off date was 77 days; in 2015, the average number of days to write off an account increased to 120. (Commission-Ordered Ex. 2 at 2.)

{¶ 26} In Piedmont's prior UEX case, Staff recommended that Piedmont establish a written policy regarding written-off accounts, which the Company agreed to in a stipulation approved by the Commission on September 10, 2014. *In re Piedmont Gas Co.*, Case No. 14-313-GA-UEx, et al. (*Piedmont 2014 UEX Case*), Opinion and Order (Sept. 10, 2014). For the current audit, Staff requested that Piedmont produce a copy of its write-off policy; Staff found that Piedmont still does not have a written policy in place. Also, Staff noted that, in the *Piedmont 2014 UEX Case*, the Commission ordered that Piedmont set its December 2013 ending balance to (\$18.77); however, Piedmont's application did not utilize the correct beginning balance of (\$18.77). (Commission-Ordered Ex. 2 at 2.)

{¶ 27} Staff relied upon billing histories provided by Piedmont to recalculate the write-offs for 2014 and 2015. Staff confirmed that Piedmont's write-off amounts were

correctly applied to the UEX rider during the current audit period. (Commission-Ordered Ex. 2 at 2.)

{¶ 28} Staff also confirmed that Piedmont accurately calculated the recovery of bad debt repaid by customers during 2014 and 2015 by utilizing Staff's sales volumes report from Case No. 16-213-GA-GCR, and UEX rider rates from Piedmont's customer billing (Commission-Ordered Ex. 2 at 2-3).

{¶ 29} In its examination, Staff found that amounts written-off and applied to the UEX rider and the amount collected from bad debt accounts are accurate. Staff also found that Piedmont did not maintain a formal written policy and procedure to determine when to write off a bad debt account as agreed to in the *Piedmont 2014 UEX Case*. Finally, Staff found that Piedmont did not revise its December 2013 ending balance to (\$18.77) per the *Piedmont 2014 UEX Case*. (Commission-Ordered Ex. 2 at 3.)

{¶ 30} Staff recommends that the Commission order Piedmont to maintain a formal policy that determines when to write off a bad debt account and the collection procedures, and to provide Staff with a copy, within 90 days, to ensure compliance. Staff also recommends that Piedmont adopt Staff's recalculated write-off amounts for 2014 and 2015, and that the ending balance be \$5,588.37. (Commission-Ordered Ex. 2 at 3.)

IV. STIPULATION OF THE PARTIES

{¶ 31} On June 10, 2016, Staff and Piedmont filed a Stipulation that, if adopted, would resolve all of the issues in the proceedings. The following is a summary of the Stipulation and does not supersede or replace the Stipulation.

{¶ 32} Regarding the financial audit, Piedmont agrees that all findings and recommendations contained in the audit report are reasonable and should be adopted by the Commission. Specifically, the Stipulation adopts Staff's recommendation for an RA of \$42,651.66 in Piedmont's favor to correct errors in the AA that are not self-correcting

through the GCR mechanism. The Stipulation also adopts Staff's recommendation for an RA of (\$20,247.00) in the customers' favor to correct differences in the BA that are not self-correcting through the GCR mechanism. Both adjustments should be applied in the first GCR filing following the Opinion and Order. Finally, the Stipulation adopts Staff's recommendation that Piedmont re-verify purchase and sales volumes before making its monthly GCR filings with the Commission and that Piedmont re-verify the correct GCR rate before billing its customers. (Jt. Ex. 1 at 3-4.)

{¶ 33} Concerning the UEx audit, Piedmont agrees that all findings and recommendations contained in the audit report are reasonable and should be adopted by the Commission. Specifically, the Stipulation adopts Staff's recommendations that Piedmont maintain a formal policy that determines when to write off a bad debt account and the collection procedure, and provide Staff with a copy within 90 days to ensure compliance. The Stipulation also adopts Staff's recalculated write-off amounts for 2014 and 2015, and the ending balance of \$5,588.37. (Jt. Ex. 1 at 4-5.)

V. CONCLUSION

{¶ 34} Ohio Adm.Code 4901-1-30 authorizes parties to Commission proceedings to enter into a stipulation. Although not binding on the Commission, the terms of such an agreement are afforded substantial weight. *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 125, 592 N.E.2d 1370 (1992), citing *Akron v. Pub. Util. Comm.*, 55 Ohio St.2d 155, 157, 378 N.E.2d 480 (1978). This concept is particularly valid where the stipulation is unopposed by any party and resolves all issues presented in the proceeding in which it is offered.

{¶ 35} The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. See, e.g., *In re Cincinnati Gas & Elec. Co.*, Case No. 91-410-EL-AIR, Order on Remand (Apr. 14, 1994); *In re Western Reserve Telephone Co.*, Case No. 93-230-TP-ALT, Opinion and Order (Mar. 30,

1994); *In re Ohio Edison Co.*, Case No. 91-698-EL-FOR, et al., Opinion and Order (Dec. 30, 1993); *In re Cleveland Elec. Illum. Co.*, Case No. 88-170-EL-AIR, Opinion and Order (Jan. 31, 1989); *In re Restatement of Accounts and Records*, Case No. 84-1187-EL-UNC, Opinion and Order (Nov. 26, 1985). The ultimate issue for our consideration is whether the agreement, which embodies considerable time and effort by the signatory parties, is reasonable and should be adopted. In considering the reasonableness of a stipulation, the Commission has used the following criteria:

- (1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
- (2) Does the settlement, as a package, benefit ratepayers and the public interest?
- (3) Does the settlement package violate any important regulatory principle or practice?

{¶ 36} The Ohio Supreme Court has endorsed the Commission's analysis using these criteria to resolve issues in a manner economical to ratepayers and public utilities. *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.*, 68 Ohio St.3d 559, 629 N.E.2d 423 (1994), citing *Consumers' Counsel* at 126. The Court stated in that case that the Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission.

{¶ 37} During the June 14, 2016 public hearing, Staff introduced the Stipulation as Joint Exhibit 1. In addition, Staff offered the testimony of Tornain Matthews to support the Stipulation. Mr. Matthews confirmed that the Stipulation presented in these cases is the product of serious bargaining among capable, knowledgeable parties; that it benefits ratepayers and is in the public interest; and that it does not violate any important regulatory principle or practice. (Tr. at 10-11.)

{¶ 38} Based on our three-pronged standard of review, we find that the first criterion, that the process involved serious bargaining by knowledgeable, capable parties, is clearly met for the Stipulation. Piedmont and Staff have been involved in many cases before the Commission, including a number of GCR and UEX cases. Moreover, these parties have consistently provided helpful information to the Commission in cases regarding GCR and fuel-related policies and practices, UEX cases, and other Commission proceedings. The Stipulation also meets the second criterion. As a package, the Stipulation advances the public interest by attempting to resolve all of the issues related to the review of Piedmont's GCR and fuel-related policies and practices, as well as UEX issues, during the audit period. Mr. Matthews testified that, except for the recommendations contained in the Stipulation, the audits determined that Piedmont accurately calculated its GCR and UEX rates and applied those rates to customer bills. Moreover, the Stipulation meets the third criterion because it does not violate any important regulatory principle or practice. (Tr. at 10-11.) Accordingly, we find that the Stipulation should be adopted and approved.

VI. FINDINGS OF FACT AND CONCLUSIONS OF LAW

{¶ 39} Piedmont is a natural gas company within the meaning of R.C. 4905.03, and, as such, is a public utility subject to the supervision and jurisdiction of this Commission.

{¶ 40} R.C. 4905.302, together with Ohio Adm.Code 4901:1-14-07, requires the Commission to review the purchased gas adjustment clause contained within the tariffs of each gas and natural gas company on an annual basis, unless otherwise ordered by the Commission.

{¶ 41} On February 24, 2016, the Commission initiated these proceedings, established the financial and UEX audit periods, established the date upon which the financial and UEX audit reports must be filed, and directed Staff to conduct the financial and UEX audits. The Commission scheduled a hearing for June 14, 2016.

{¶ 42} On April 15, 2016, Staff filed a GCR audit report and a UEX audit report.

{¶ 43} On June 10, 2016, the parties filed a Stipulation resolving all issues in these proceedings.

{¶ 44} At the June 14, 2016 hearing, the parties submitted a Stipulation that resolves all GCR and UEX issues. The Stipulation is reasonable, meets the criteria used by the Commission to evaluate stipulations, and should be adopted.

{¶ 45} Except as noted in the financial audit report, the Stipulation, and this Order, Piedmont accurately determined its GCR rate for the audit period and applied the GCR rate to customer bills in accordance with the financial and procedural aspects of Ohio Adm.Code Chapter 4901:1-14. Accordingly, the gas costs passed through Piedmont's GCR rate for the audit period were fair, just, and reasonable, except as noted in this decision.

{¶ 46} Piedmont accurately calculated its UEX rider rate during the UEX audit period, except to the extent noted in the audit reports and this decision.

VII. ORDER

{¶ 47} It is, therefore,

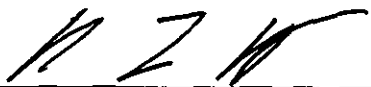
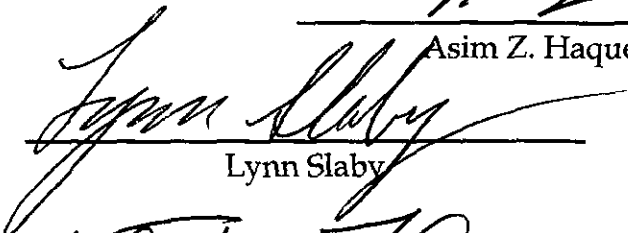
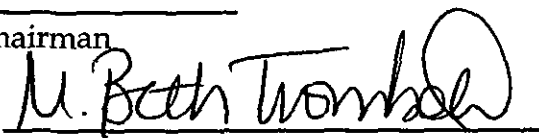

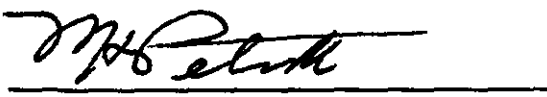
{¶ 48} ORDERED, That the Stipulation of the parties be approved and adopted. It is, further,

{¶ 49} ORDERED, That the auditor that conducts the Company's next financial and UEX audits shall evaluate how the Company implemented the agreements set forth in the Stipulation and the directives set forth in this Opinion and Order. It is, further,

{¶ 50} ORDERED, That nothing in this Opinion and Order shall be binding upon this Commission in any subsequent investigation or proceeding involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 51} ORDERED, That a copy of this Opinion and Order be served upon each party and interested person of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

	
Asim Z. Haque, Chairman	
	
Lynn Slaby	M. Beth Trombold
	
Thomas W. Johnson	M. Howard Petricoff

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Barcy F. McNeal
Secretary