

M. Beth Trombold Lawrence K. Friedeman Dennis P. Deters Daniel R. Conway

November 5, 2019

Docketing Division Public Utilities Commission of Ohio 180 East Broad Street Columbus, OH 43215

RE: In the Matter of the Application of One Source Energy, LLC for Authority to Operate as an Ohio Natural Gas Company, Case No. 16-1181-GA-ACE

Dear Docketing Division:

Enclosed please find the Staff Review and Recommendation regarding the joint application of Northeast Ohio Natural Gas Corp. and One Source Energy, LLC to transfer assets, Case No. 16-1181-GA-ACE.

Doris McCarter

Division Chief, Capital Recovery and Financial Analysis

Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of One)	
Source Energy, LLC for Authority to Operate)	Case No. 16-1181-GA-ACE
as an Ohio Natural Gas Company)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On October 30, 2019, Northeast Ohio Natural Gas Corp. ("NEO") and One Source Energy, LLC ("One Source") filed a joint application with exhibits ("Application") with the Public Utilities Commission of Ohio ("Commission") seeking approval on an expedited basis to transfer certain pipeline assets of One Source to NEO pursuant to the Asset Purchase Agreement dated October 14, 2019, a copy of which was provided with the application as Exhibit 1 ("Agreement"). Paragraph 1 of the Agreement outlines the assets of One Source that NEO is proposing to purchase ("Purchased Assets").

NEO is also requesting that the Commission grant NEO certain accounting authority to establish the value of the Purchased Assets for ratemaking purposes due to One Source's limited access to historic books and records that would be used to determine the original installed cost of the Purchased Assets. Specifically, NEO proposes to record a non-depreciated installed cost of \$504,001 for the Purchased Assets, and NEO will begin depreciating the assets as of the date the proposed transaction closes. NEO does not request authority at this time to recover the incremental rate base from the Purchased Assets from all NEO customers. Any recovery on and of the Purchased Assets, including determinations as to whether such assets are currently used and useful, will be addressed in a future proceeding.

BRIEF CASE BACKGROUND

On August 22, 2019, the Commission directed One Source to safely retire and abandon its natural gas distribution system by September 6, 2019.¹ The Commission alluded to One Source's lack of managerial and financial capability along with continued noncompliance as compelling reasons to safely retire and abandon the system. Although the abandonment of the system would place a tremendous burden on the customers of One Source, the Commission determined that it would be detrimental to customers to allow One Source to continue to operate as a natural gas company

¹ See In the Matter of the Application of One Source Energy, LLC for Authority to Operate as an Ohio Natural Gas Company, Case No. 16-1181-GA-ACE, Third Finding and Order at ¶55 (August 22, 2019)(2016 Certification Case)

in Ohio.² The Commission also noted that One Source had contemplated selling its assets to a third party, but failed to provide details on how One Source planned to effectuate the sale by the deadline to abandon the system.³ However, on September 4, 2019, One Source and NEO filed a motion requesting a time extension beyond the September 6th deadline for abandonment. The reason for the request was due to a tentative agreement between NEO and One Source for the purchase of all of One Source's assets.⁴ The attorney examiner presiding over this case issued an entry in response to the motion filed by One Source and NEO granting an extension of time to consider the tentative purchase offer and temporarily halting the directive to Dominion Energy Ohio to discontinue gas supply to the One Source system as NEO stated that it would aid and consult with the operation of One Source's system during the interim.⁵

STAFF REVIEW AND RECOMMENDATION

Staff has reviewed the Application along with supporting documentation and the extensive record established in this case. Staff believes the Application appears reasonable based upon the following reasons:

- Customers of One Source will benefit from access to natural gas service by an established natural gas company that has demonstrated the technical, managerial and financial capabilities required to safely and properly operate a natural gas distribution system in the state of Ohio.
- A review of NEO's recently enacted base rates appear to yield similar customer bills to the rate structure that One Source employed thereby limiting potential rate shock for the customers of One Source.
- NEO's current natural gas distribution system has a mainline pipe that is within approximately 600 feet of the end of One Source's system. NEO's proximity to One Source's system provides potential for operational efficiencies and may represent the lowest cost operator for the One Source system.
- NEO's current financial standing along with the ability to operate the One Source system
 on a cash flow positive basis, prior to non-cash transactions such as depreciation, will
 position NEO to expand the One Source system to new potential customers.

Staff has also considered NEO's request for accounting authority to record the non-depreciated value of the Purchased Assets as \$504,001, due to the lack of historic books and records of One Source. Staff is familiar with the lack of record keeping of One Source. Staff reviewed the methodology proposed by NEO to calculate the value of the Purchased Assets to determine its reasonableness. Under the circumstances, Staff believes the methodology employed by NEO was reasonable to determine a value of the Purchased Assets for the purpose of this transfer. While

³ Id. at ¶50

² Id. at ¶52

⁴ 2016 Certification Case, Motion for Extension of Time to Retire and Abandon System (September 4, 2019)

⁵ 2016 Certification Case, Attorney Examiner Entry at ¶27 (September 4, 2019)

⁶ 2016 Certification Case, Comments by the Staff of the Public Utilities Commission of Ohio at 4 (August 19, 2019)

Staff does not believe the proposed Purchased Asset value to be unreasonable, Staff will conduct a used and useful review before recovery on and of the Purchased Assets are included in future base rates of NEO. Staff does wish to clarify that, if approved, NEO should use the accrual rates approved in its most recent rate case when it begins to depreciate the Purchased Assets.

Therefore, based upon the benefits listed above and the overall reasonableness of the Application, Staff recommends that the Commission approve the joint application of NEO and One Source and grant the accounting authority as requested.

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Case No(s). 16-1181-GA-ACE

Summary: Staff Review and Recommendation regarding the joint application of Northeast Ohio Natural Gas Corp. and one Cource Energy, LLC to transfer assets electronically filed by Docketing Staff on behalf of PUCO Staff