

THE PUBLIC UTILITIES COMMISSION OF OHIO

**IN THE MATTER OF THE REGULATION OF
THE PURCHASED GAS ADJUSTMENT
CLAUSE CONTAINED WITHIN THE RATE
SCHEDULES OF WATERVILLE GAS & OIL
COMPANY.**

CASE NO. 21-217-GA-GCR

**IN THE MATTER OF THE UNCOLLECTIBLE
EXPENSE RIDER OF WATERVILLE GAS &
OIL COMPANY.**

CASE NO. 21-317-GA-UEX

OPINION AND ORDER

Entered in the Journal on July 14, 2021

I. SUMMARY

{¶ 1} The Commission adopts the Stipulation and Recommendation filed by the parties on April 14, 2021, that resolves all issues relating to the gas cost recovery and uncollectible expense audits of Waterville Gas & Oil Company.

II. PROCEDURAL BACKGROUND

{¶ 2} Waterville Gas & Oil Company (Waterville or Company) is a natural gas company, as defined in R.C. 4905.03, and a public utility, as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} Further, Waterville is also a natural gas company within the meaning of R.C. 4905.302(C) and, as such, Waterville implements a purchased gas adjustment mechanism. Pursuant to R.C. 4905.302(A)(1), the purchased gas adjustment mechanism allows a gas company or natural gas company to adjust the rates that it charges customers in accordance with any fluctuation in the cost the company incurs for the gas that it sells to customers. To facilitate the purchased gas adjustment mechanism and the audit of the mechanism, the rules contained in Ohio Adm.Code Chapter 4901:1-14 direct that the jurisdictional cost of gas be separated from all other costs incurred by a gas or natural gas company and provide for each company's recovery of the gas costs.

{¶ 4} 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 the company's gas cost recovery (GCR) rates; and to review each company's production and purchasing policies and their effect upon the rates. Pursuant to such authority, Ohio Adm.Code 4901:1-14-07 requires that the gas costs for each gas company or natural gas company be audited annually, unless otherwise ordered by the Commission. R.C. 4905.302(C) and Ohio Adm.Code 4901:1-14-08(A) require the Commission to hold a public hearing at least 60 days after the filing of an audit report and Ohio Adm.Code 4901:1-14-08(C) specifies that notice of the hearing be provided at least 15 days and not more than 30 days prior to the date of the scheduled hearing.

{¶ 5} By Entry issued January 27, 2021, the Commission initiated Waterville's GCR proceedings in Case No. 21-217-GA-GCR (*2021 GCR Case*), established the financial audit review period of August 1, 2018, through July 31, 2020, set the date of the hearing, and the due dates for various filings. The Commission also directed Waterville to publish notice of the hearing. On March 16, 2021, Staff filed its GCR audit report for the period August 1, 2018, through July 31, 2020.

{¶ 6} In Waterville's last rate case, the Commission approved a Stipulation and Recommendation, wherein Waterville agreed to, among other things, the establishment of an uncollectible expense (UEx) rider mechanism and the rider rate was initially set at \$0.03 per thousand cubic feet (Mcf). *In re Waterville Gas & Oil Co.*, Case No. 07-194-GA-AIR (*2007 Rate Case*), Opinion and Order (Nov. 20, 2007). Most recently, the Commission approved Waterville's application to adjust its UEx rider and established the rate at \$0.0031 per Mcf. *In re Waterville Gas & Oil Co.*, Case No. 20-317-GA-UEx, Opinion and Order (July 15, 2020).

{¶ 7} In these proceedings, by Entry issued January 27, 2021, in Case No. 21-317-GA-UEx (*2021 UEx Case*), the Commission established the audit period for Waterville's

UEx rider and the due date for the audit report. The UEx audit report examines the UEx rider components for the period January 1, 2019, through December 31, 2020. On March 16, 2021, Staff filed its UEx audit report in the *2021 UEx Case*. As part of its GCR and UEx audit reports, Staff submitted a certificate of accountability attesting to the accuracy of the data pertaining to the period of the GCR and UEx audits.

{¶ 8} By Entry dated March 2, 2021, the attorney examiner directed that, due to the COVID-19 state of emergency, and given the passage of Sub. H.B. 404, the hearing would be conducted on May 25, 2021, through Webex, which would enable the parties and interested persons to participate by telephone and/or video on the internet. Interested members of the public that wished to provide testimony were directed to register with the Commission before 12:00 p.m. on May 24, 2021, by phone or internet. No members of the public registered to testify at the hearing.

{¶ 9} On April 14, 2021, Waterville and Staff filed a Stipulation and Recommendation (Stipulation). The Stipulation, if adopted by the Commission, will resolve all of the issues in the GCR and UEx cases.

{¶ 10} The public hearing in these matters was held, as scheduled, on May 25, 2021, via remote access technology. Admitted into evidence at the hearing were the GCR audit report (Staff Ex. 1), the UEx audit report (Staff Ex. 2), and the Stipulation (Joint Ex. 1). Counsel for Waterville offered and admitted into evidence the proof of publication of notice of the hearing filed on April 27, 2021 (Waterville Ex. 1).

III. DISCUSSION

A. *Summary of GCR Audit Report*

{¶ 11} According to the GCR audit report, as of December 2020, Waterville provides natural gas utility service to approximately 7,595 customers, including approximately 7,313 residential customers and 282 commercial customers in Lucas and Wood counties, Ohio. Waterville is subject to the Commission's jurisdiction with regard to approximately 5,314 of

those customers and the remaining 2,281 nonjurisdictional customers are served under ordinance rates negotiated with the Village of Waterville. Since the last GCR audit, Waterville's customer base has grown by approximately 11.9 percent and almost all have been jurisdictional customers. (Staff Ex. 1 at 4.)

1. EXPECTED GAS COST

{¶ 12} The GCR audit period reviewed in these proceedings was August 1, 2018, through July 31, 2020. In its GCR audit report, Staff reviewed Waterville'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 purchased 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. (Staff Ex. 1 at 5.)

{¶ 13} In Staff's review of the Company's EGC calculations, Staff considered supply sources, purchased volumes, and sales volumes. Staff notes that Waterville initially entered into a 15-month gas sales agreement with CenterPoint Energy (CenterPoint), formerly known as Atmos Energy Marketing, LLC, to commence on January 1, 2007, through April 1, 2008. CenterPoint and Waterville have subsequently amended the term of the sales agreement to extend through March 2022. The sales agreement provides that Waterville assigns its general transportation service (GTS) on Columbia Gas Transmission (CGT) to CenterPoint. CenterPoint, in turn, procures gas at market prices and uses the GTS capacity, along with other available capacity, to deliver all of Waterville's sales requirements. CenterPoint invoices Waterville for the commodity purchases plus shrinkage, CGT demand and volumetric charges, GTS volumetric charges, management fees, and a transportation credit for all non-GTS deliveries. (Staff Ex. 1 at 5.)

{¶ 14} In its review of purchased and sales volumes, Staff notes that CenterPoint invoices show details of volumes purchased on behalf of Waterville and take into account shrinkage on CGT. In addition to detailing storage injections and withdrawals, the CenterPoint invoices include a monthly balance of gas currently in storage and the weighted average cost of gas (WACOG) in storage. Staff reviewed the CenterPoint invoices and verified that purchased volumes and costs were correct for each month of the audit period. Staff also reviewed the CenterPoint invoices to determine that costs were properly included for recovery through the GCR. (Staff Ex. 1 at 5, 6.)

{¶ 15} Costs associated with volumes injected into storage are not included for recovery at the time of injection. Instead, the volumes and their associated costs are entered into a WACOG calculation and the resulting price is recoverable through the GCR when volumes are withdrawn from storage. Staff verified that the WACOG was accurately calculated for each month during the audit period and that storage withdrawals were priced according to the WACOG. (Staff Ex. 1 at 5-6.)

{¶ 16} Waterville's monthly billing registers detail both jurisdictional and nonjurisdictional sales volumes. The GCR mechanism is applied to all jurisdictional sales. As a part of the GCR audit, Staff verified that sales volumes included in GCR filings equaled those detailed in the monthly billing registers. Staff reviewed Waterville's EGC calculations for the current audit period and determined that the Company's calculations were accurate. Accordingly, Staff has no recommendations as to the EGC. (Staff Ex. 1 at 6.)

2. ACTUAL ADJUSTMENT

{¶ 17} The actual adjustment (AA) reconciles the monthly cost of purchased gas with the EGC billing rate. The AA is calculated by dividing the total cost of gas purchases for each month of the quarter by total sales for the quarter. The result is the unit book cost of gas (UBCOG), the cost incurred by Waterville for procuring each Mcf of gas sold that month. The difference between the UBCOG for the month and the EGC is multiplied by the

jurisdictional sales to determine the total under- or over-recoveries of gas cost. The under- or over-recoveries are then summed and divided by the 12-month historic jurisdictional sales to develop an AA rate to be included in the GCR for each quarter. (Staff Ex. 1 at 7.)

{¶ 18} Staff reviewed Waterville’s purchase invoices, sales volumes, and worksheets used in the calculation of the Company’s AA. Staff found that Waterville’s calculations reflected prior period adjustments on the CenterPoint invoices in the month Waterville was invoiced as opposed to the month the volumes flowed to Waterville. Staff in its calculation has moved the adjustment from the month in which it was invoiced to the month the volumes were transmitted to Waterville. Based on Staff’s adjustment to recognize the transmission of volumes to Waterville, Staff recommends an under-collection adjustment of \$1,807. (Staff Ex. 1 at 7.)

3. REFUND AND RECONCILIATION ADJUSTMENT

{¶ 19} The refund and reconciliation adjustment (RA) is used to return to customers the jurisdictional portion of refunds received from gas suppliers and adjustments ordered by the Commission. In the Company’s prior GCR case, as agreed in the stipulation, Waterville had one Commission-ordered reconciliation adjustment of \$1,120 during the audit period. *In re Waterville Gas & Oil Co.*, Case No. 19-217-GA-GCR, Opinion and Order (July 2, 2019) at ¶ 25. Staff examined the refund, passed back to customers through the AA over a 12-month period starting with the July 2019 GCR filing, and found it was properly passed back to customers. Accordingly, Staff has no recommendations as to the RA. (Staff Ex. 1 at 12.)

4. BALANCE ADJUSTMENT

{¶ 20} The balance adjustment (BA) mechanism corrects for under- or over-recoveries of previously calculated AAs or 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. Staff reviewed Waterville's BA calculations contained in the filings under review during this audit period and did not find any differences between the Company's and Staff's BA calculations. On that basis, Staff concludes that the Company properly calculated the BA during this audit period and, therefore, Staff has no recommendations. (Staff Ex. 1 at 13.)

5. UNACCOUNTED-FOR GAS

{¶ 21} Unaccounted-for gas (UFG) is the difference between purchased gas 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. Pursuant to R.C. 4905.302 and Ohio Adm.Code 4901:1-14-08(F)(3), the Commission is vested with the authority to adjust any gas company's future GCR rates for UFG above a reasonable level, which is presumed to be no more than five percent during the audit period. Staff calculated that Waterville's UFG level for the 12-month period ending July 2019 was (1.44) percent, and, for the 12-month period ending July 2020, it was (1.04) percent. The Company's negative UFG levels mean that Waterville's sales volumes exceed the purchased volumes for the period. Staff notes Waterville's UFG levels have been negative for several audit periods. A negative UFG may be attributed to one or more of several factors, including rounding differences when converting from dekatherms to Mcf, accuracy tolerances of the meters used to measure sales and purchased volumes, and a disparity between the purchased and sales volumes being considered. Waterville monitored its UFG levels and attributes its negative UFG to the Company's metering with the interstate pipeline. According to Staff's GCR audit report, Waterville has contacted the pipeline, but the pipeline elected not to alter or change its existing regulator and metering devices. The negative UFG levels do not have an adverse impact on Waterville's customers. Accordingly, Staff has no recommendations as to the UFG. (Staff Ex. 1 at 14.)

6. CUSTOMER BILLS

{¶ 22} Staff reviewed Waterville’s customer billing records to determine whether the Company properly applied the GCR and base rates to customer bills during the audit period. Selecting a random sample of customer billing registers, Staff recalculated the monthly customer bills and then compared the recalculated bill to the customer billing register. Based on its review, Staff found that Waterville accurately billed its customers the GCR rates filed with the Commission. Accordingly, Staff has no recommendations on this aspect of the audit. (Staff Ex. 1 at 15.)

B. Summary of UEX Audit Report

{¶ 23} As previously noted, in the *2007 Rate Case*, the Commission approved a stipulation wherein Waterville agreed to implement a UEX rider initially set at \$0.03 per Mcf. *2007 Rate Case*, Opinion and Order (Nov. 20, 2007).

{¶ 24} The UEX audit period reviewed in these proceedings was January 1, 2019, through December 31, 2020. Staff reviewed and verified the Company’s monthly write-offs and recoveries, including other payments received, from the UEX rider as shown on its annual balance reconciliations (ABRs)¹ and bad debts written-off reports (BDRs) during the audit period. Staff verified the amounts for each component of the ABRs and did not find any discrepancies in the BDRs. (Staff Ex. 2 at 1.)

{¶ 25} Staff also examined the billing histories of the customer accounts included in the BDRs. Staff verified the customer’s last payment, monthly balance, final balance, and the number of days between the final payment and the account becoming part of the BDR. Staff determined that all accounts reconciled back to the amounts reflected in the BDR. Staff also examined sales volumes and Commission-approved rider adjustments, if applicable, to verify the recoveries in the UEX rider. Staff did not find any errors. Based on its

¹ The ABRs are attached to Waterville’s UEX applications filed in Case Nos. 19-317-GA-UEx and 20-317-GA-UEx.

examination, Staff concluded that Waterville accurately applied the UEX rider rates and sales volumes during the audit period. (Staff Ex. 2 at 1-2.)

IV. STIPULATION OF THE PARTIES

{¶ 26} As previously noted, on April 14, 2021, Waterville and Staff (Signatory Parties) filed a Stipulation that, if adopted, would resolve all of the issues in these proceedings. For the purpose of reaching the Stipulation, Waterville agrees with all the findings and endorses all the recommendations made by Staff in the audit reports. The Stipulation has been submitted, subject to the condition that it be adopted by the Commission without material modification and, if not, Waterville may withdraw from the agreement. (Joint Ex. 1 at 1-2.) Further, Waterville and Staff agree, stipulate, and recommend that the Commission find:²

- (a) Waterville's GCR rates were fairly determined in accordance with the provisions of Ohio Adm.Code Chapter 4901:1-14 during the audit period (Joint Ex. 1 at 3).
- (b) Waterville accurately determined and billed the GCR rates for the period, August 1, 2018, through July 31, 2020, in accordance with Ohio Adm.Code Chapter 4901:1-14 and related appendices (Joint Ex. 1 at 3).
- (c) Waterville's GCR rates were properly applied to customer bills during the audit period (Joint Ex. 1 at 3).
- (d) Waterville agrees to implement Staff's recommendation contained in the GCR audit report. More specifically, Waterville will make a reconciliation adjustment in the amount of \$1,807 in connection with an under-collection of the AA. This adjustment

² This is a summary of the Stipulation and does not supersede or replace the Stipulation.

will be applied to the first GCR filing following the Opinion and Order in these cases. (Joint Ex. 1 at 3.)

- (e) Waterville's UFG level for the audit period under review is reasonable and well within the requirements of the Commission rules (Joint Ex. 1 at 3).
- (f) The Signatory Parties recommend that the Commission adopt the conclusions and recommendations contained in the GCR audit report (Joint Ex. 1 at 3).
- (g) Waterville published a display ad that comports with the publication requirements and furnished proof of publication (Waterville Ex. 1). The Signatory Parties recommend that the Commission find that the manner of publication described therein complies with Ohio Adm.Code 4901:1-14-08(C)(1). (Joint Ex. 1 at 4.)
- (h) Waterville accurately applied the UEX rider rates and sales volumes during the UEX audit period (Joint Ex. 1 at 5).
- (i) Staff verified the amounts for each component of the ABRs for the audit period (Joint Ex. 1 at 5).
- (j) Waterville's UEX rider rates were properly applied to customer bills during the audit period (Joint Ex. 1 at 5).
- (k) Waterville's UEX ending balance for December 31, 2020, was correct (Joint Ex. 1 at 5).

- (l) The number of accounts and amounts written-off were accurate and monies subsequently collected were properly credited to customers' arrearages (Joint Ex. 1 at 5).
- (m) The Signatory Parties recommend that the Commission adopt the findings and recommendations contained in the UEX audit report (Joint Ex. 1 at 5).

V. CONCLUSION

{¶ 27} Ohio Adm.Code 4901-1-30 authorizes parties to Commission proceedings to enter into a stipulation. Although not binding upon the Commission, the terms of such an agreement are accorded 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.

{¶ 28} 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 Dominion Retail, Inc. v. The Dayton Power and Light Co.*, Case No. 03-2405-EL-CSS, et al., Opinion and Order (Feb. 2, 2005); *In re Cincinnati Gas & Elec. Co.*, Case No. 91-410-EL-AIR, Order on Remand (Apr. 14, 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). The ultimate issue for the Commission's 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:

- (a) Is the settlement a product of serious bargaining among capable, knowledgeable parties?

- (b) Does the settlement, as a package, benefit ratepayers and the public interest?
- (c) Does the settlement package violate any important regulatory principle or practice?

{¶ 29} The Supreme Court of Ohio has endorsed the Commission's analysis using these criteria to resolve cases 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, 561, 629 N.E.2d 423 (1994), citing *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 126, 592 N.E.2d 1370 (1992). Additionally, the Court stated that the Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission. *Consumers' Counsel* at 126.

{¶ 30} Based on our three-pronged standard of review, the Commission finds the first criterion, that the process involved serious bargaining by knowledgeable, capable parties, is met. Staff witness Tornain Matthews testified that he was involved in the negotiations of the Stipulation and, in his opinion, the parties involved in the settlement discussions were knowledgeable about the issues involved. Further, the Commission notes that counsel and parties in these proceedings and negotiating the Stipulation have been involved in numerous cases before the Commission, including numerous GCR cases. (Tr. at 10-11.)

{¶ 31} The Stipulation also meets the second criterion. The purpose of the audit is to ensure the accuracy of Waterville's GCR and UEX riders and to ensure that the rates reflect the costs of the utility services provided. While Staff's audit revealed one discrepancy in the GCR audit, as part of the Stipulation, Waterville agrees with the Staff's recommendations as stated in the audit reports and, for purposes of reaching a settlement, agrees with and endorses Staff's conclusions and recommendations contained in the audit reports. Accordingly, the Stipulation advances the public interest by resolving these

matters, without the need to engage in extensive litigation. Moreover, the Stipulation meets the third criterion because it does not violate any important regulatory principle or practice. Staff witness Matthews testified that the Stipulation satisfies all three prongs of the standard of review employed by the Commission in considering stipulations. (Joint Ex. 1 at 1, 5-6; Tr. at 11, 12-13.)

{¶ 32} Upon review of the Stipulation filed in these proceedings, the Commission concludes that the terms and conditions contained therein represent a reasonable resolution of the issues in these cases and, as a package, the Stipulation benefits ratepayers and advances the public interest. Further, the Commission finds that there is no evidence that the Stipulation violates any important regulatory principle or practice. Accordingly, the Stipulation should be adopted in its entirety. (Joint Ex. 1 at 1, 5-6; Tr. at 11-13.)

VI. FINDINGS OF FACT AND CONCLUSIONS OF LAW

{¶ 33} Waterville is a natural gas company, as defined in R.C. 4905.03, and a public utility, as defined in R.C. 4905.02. As such, Waterville is subject to the jurisdiction of this Commission.

{¶ 34} Pursuant to Ohio Adm.Code 4901:1-14-08, the *2021 GCR Case* was initiated by the Commission's Entry issued on January 27, 2021, to review Waterville's GCR rates.

{¶ 35} Staff conducted an audit of Waterville's GCR for the period August 1, 2018, through July 31, 2020, in compliance with R.C. 4905.302 and Ohio Adm.Code 4901:1-14-07. Staff filed the GCR audit report on March 16, 2021.

{¶ 36} Staff completed an audit of Waterville's UEX rider for the period January 1, 2019, through December 31, 2020, and filed the UEX audit report on March 16, 2021.

{¶ 37} Pursuant to R.C. 4905.302(C) and Ohio Adm.Code 4901:1-14-08(A), a public hearing was held on May 25, 2021. No public witnesses registered to testify at the hearing.

{¶ 38} The Company published notice of the hearing in substantial compliance with Ohio Adm.Code 4901:1-14-08(C) and filed its proof of publication.

{¶ 39} On April 14, 2021, the parties submitted the Stipulation in these proceedings, which, if adopted, resolves all outstanding issues in these matters.

{¶ 40} The Stipulation submitted by the parties in these cases meets the criteria used by the Commission to evaluate stipulations, represents a just and reasonable resolution of the issues in these proceedings, and should be adopted.

{¶ 41} Except as otherwise noted in the GCR audit report, Waterville's GCR rates for the audit period were determined to be in compliance with the financial and procedural aspects of Ohio Adm.Code Chapter 4901:1-14, and such rates were properly applied to customer bills. Accordingly, the gas costs passed through the Company's GCR clause for the audit period were fair, just, and reasonable.

{¶ 42} Waterville accurately calculated the UEX rider rates and properly applied the UEX rider rates to customer bills during the UEX audit period.

VII. ORDER

{¶ 43} It is, therefore,

{¶ 44} ORDERED, That the Stipulation filed by the parties be adopted and approved. It is, further,

{¶ 45} ORDERED, That the auditor selected to conduct the Company's next GCR and UEX audits review Waterville's actions in carrying out the terms of the Stipulation. It is, further,

{¶ 46} ORDERED, That a copy of this Opinion and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Jenifer French, Chair
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

GNS/JMD/mef

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

7/14/2021 2:38:55 PM

in

Case No(s). 21-0217-GA-GCR, 21-0317-GA-UEX

Summary: Opinion & Order adopting the Stipulation and Recommendation filed by the parties on April 14, 2021, that resolves all issues relating to the gas cost recovery and uncollectible expense audits of Waterville Gas & Oil Company. electronically filed by Ms. Mary E Fischer on behalf of Public Utilities Commission of Ohio