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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Complaint and Appeal Of Oxford Natural Gas Company From Ordinance No. 2896 Passed by the Council Of the City of Oxford on February 7, 2006.	)) Case No. 06-350-GA-CMR))

OBJECTIONS TO THE STAFF REPORT OF OXFORD NATURAL GAS COMPANY

Pursuant to Section 4909.19, Revised Code and Rule 4901-1-28 of the Ohio Administrative Code, Oxford Natural Gas Company ("ONG") submits its objections to the Staff Report and Summary of major issues below.

Rate Base

1. The Staff unreasonably and unlawfully reduced Account 376 "Mains" over the consulting engineering evaluation as shown on Schedule B-2.2b. The Staff claims that it adjusted the consultant's valuation to reflect "certain findings discovered by the Staff" which were not identified in the Staff Report. The Staff also states that it adjusted the consultant's determination of plant evaluation as a result of changes made by the Staff to some of the calculations and assumptions made by the consultant. Staff did not identify these changes in the Staff Report. However, ONG believes that Staff's main installation costs were unreasonably and unlawfully based on the use of a ONG construction crew rather than following B&N's methodology of basing main installation costs on the use of a private contractor construction crew. In addition, ONG believes that:

(a) The Staff unreasonably and unlawfully failed to account for the cost of equipment in its calculation for the daily cost of an ONG construction crew. Staff included an operating cost of $423.60 per day operating costs for equipment but did not account for the cost of the actual equipment that would have been used during construction;

(b) The Staff unreasonably and unlawfully assumed that all mains were installed in moderate traffic areas, using a RS Means factor of $0.13 per linear foot rather than accounting for the mains that were installed in areas of heavy traffic; and

(c) The Staff unreasonably and unlawfully assumed without support or reference that the productivity rate for an ONG construction crew would be the same as a private contractor crew. Staff provided no backup or support for this assumption and did not account that ONG construction crews are unable to devote 8 hours a day to installation given interruptions to attend to other ONG business needs, such as responding to leak calls, locating lines for customers and work orders to turn on or turn off service. The productivity rates assumed by Staff should be decreased by at least fifty percent to account for the difference between the productivity of a private contractor construction crew and an ONG construction crew.

(d) The Staff unreasonably and unlawfully reduced Account 380 "Services" over what Burgess & Niple had established in its cost valuation study, as shown on Schedule B-2.2b. The Staff did not identify any reasons in the Staff Report of investigation for such a reduction. However, ONG believes that Staff's main installation cost for ¾ inch polyethylene pipe which was used in Staff's calculation for Account 380 was unreasonably and unlawfully based on the same reasons set forth in Objection 1.

2. The Staff unreasonably and unlawfully reduced Account 389 "Land and Land Rights" over what Burgess & Niple had established in its cost valuation report, as shown on Schedule B-2.2b. The Staff should have included $76,000 for parcel no. H 4100019000045.

Further, parcel no. H41000190026 should have been valued at $30,800 which reflects a land value for the tax year 1993 according to the Butler County Auditor's website. Account 389 should be valued at $106,800, not $119,000 as listed in B&N Original Cost Valuation Report and not $38,500 as listed at Schedule B-2.2b in the Staff Report.

3. The Staff unreasonably and unlawfully reduced Account 390 "Structures and Improvements" over what Burgess & Niple had presented in its study. The Staff assumed that ONG operated from a single story building on 5181 College Corner Pike starting in the mid-1960's and continuing to the present date. This assumption is incorrect. ONG did not move into the single story building until after it purchased the property in 1987. The Staff should have applied a 1987 cost index at a minimum. Schedule B-2.2b, column (a) should be increased from $210,250 to $282,310.

Depreciation reserve

4. The Staff unreasonably and unlawfully increased the accumulated depreciation reserve in Account 376 in the amount of $2,714.97 by not adjusting for over depreciation of certain items by B&N. This error was created by continuing to apply the applicable depreciation accrual rate to an item that exceeded its used and useful life, resulting in depreciation accruals beyond the original cost of the main. B&N notified the Staff of this error prior to the submittal of its report, but was informed that Staff would account for this error. Staff did not account for the error when preparing Schedule B-3.1.

5. The Staff unreasonably and unlawfully increased the accumulated depreciation reserve in Account 380 in the amount of $68,930.77 by not adjusting for over depreciation of certain items by B&N. This error was created by continuing to apply the applicable depreciation accrual rate to an item that exceeded its used and useful life, resulting in depreciation accruals

beyond the original cost of the main. B&N notified the Staff of this error prior to the submittal of its report, but was informed that Staff would account for this error. Staff did not account for the error when preparing Schedule B-3.1.

6. The Staff unreasonably and unlawfully increased the accumulated depreciation reserve in Account 381 in the amount of $36,610.20 by not adjusting for over depreciation of certain items by B&N. This error was created by continuing to apply the applicable depreciation accrual rate to an item that exceeded its used and useful life, resulting in depreciation accruals beyond the original cost of the main. B&N notified the Staff of this error prior to the submittal of its report, but was informed that Staff would account for this error. Staff did not account for the error when preparing Schedule B-3.1.

7. The Staff unreasonably and unlawfully increased the accumulated depreciation reserve in Account 390 in the amount of $6,138.71 by not adjusting for over depreciation of certain items by B&N. This error was created by continuing to apply the applicable depreciation accrual rate to an item that exceeded its used and useful life, resulting in depreciation accruals beyond the original cost of the main. B&N notified the Staff of this error prior to the submittal of its report, but was informed that Staff would account for this error. Staff did not account for the error when preparing Schedule B-3.1.

8. The Staff unreasonably and unlawfully increased the accumulated depreciation reserve in Account 392 "Transportation Equipment" in the amount of $4,890.83 by not adjusting for over depreciation of certain items by B&N. This error was created by continuing to apply the applicable depreciation accrual rate to an item that exceeded its used and useful life, resulting in depreciation accruals beyond the original cost of the main. B&N notified the Staff of this error

prior to the submittal of its report, but was informed that Staff would account for this error. Staff did not account for the error when preparing Schedule B-3.1.

Working capital

9. The Staff unreasonably and unlawfully failed to include the actual cost of the natural gas procured for sale in its formula for determining working capital. Because of its financial position, Oxford Natural Gas Company must pre-pay suppliers for the natural gas it purchases before it is reimbursed by its customers thus making natural gas an expense which requires working capital.

Contributions in Aid of Constructions

10. The Staff unreasonably and unlawfully reduced rate base by $191,699 in contributions in aid of construction based solely upon a reference to a 1980 annual report. Making such an adjustment is inconsistent with the use of a field audit. The Staff should have ascribed a $0 value for CIAC as the 1982 Annual Report eliminated this amount.

Allocations

11. The Staff unreasonably and unlawfully stated that the applicant operates two public utilities. There is no applicant in this Complaint and Appeal case. Oxford Natural Gas Company does not operate Verona Natural Gas Company.

III. Operating Expenses

12. The Staff unreasonably and unlawfully reduced labor expense on pages 8 and 57 of the Staff Report by over half of the actual test year labor expense. The Staff unreasonably and unlawfully failed to take into account that Oxford had hired a manager, John Stenger and a president, Keith Smith, <u>before</u> the end of the test year and that labor expense should have been

annualized to reflect the labor expense for Mr. Stenger and Mr. Smith for an entire 12 month period.

13. Staff proposed labor expense on a per customer basis are half those of other natural gas companies subject to Commission jurisdiction of a similar size to ONG. It was unjust and unreasonable for Staff to suggest a pay roll level for a natural gas company that has no basis in the industry. The Staff's recommended labor allowance amounts to $.52 per customer per year which is no more than half of what other companies incur as far as employee compensation on a per employee basis. The Staff should have recommended $505,123 for labor expense.

14. The Staff unreasonably and unlawfully reduced union fringe benefits expense by $15,580. The Staff assumed that both Mr. Robert Sanders and Mr. Frank Sanders left the ONG's employment. However, those positions are still in existence and are still necessary and were filled during the test year. The exclusion for union fringe benefits should have been only $9,662.

15. The Staff unreasonably and unlawfully adjusted Savings Retirement Account expense by $7,103. Instead, the Staff should have included the entire Savings Retirement Account expense.

16. At pages 9, 12 and 62 of the Staff Report, the Staff excluded all costs associated with construction projects from Business Expense. The Staff identifies two construction projects of a bridge and Highway 27 project at page 12 of the Staff Report. The Staff goes on to state that it believes that these types of expenditures should be capitalized and are already incorporated as part of the consultant's plant evaluation. This statement is unreasonable, unlawful and untrue as the ONG consultant, B&N, did not included these projects in its plant evaluation. Because of the temporary nature of moving pipelines, $36,950 should have been expensed.

17. The Staff unreasonably and unlawfully reduced Ohio Bureau of Workers' Compensation (OBWC) expense by $4,826. The Staff should have only reduced this expense by $738 because the positions of president/employee and general manager have not been eliminated.

18. The Staff unreasonably and unlawfully reduced legal expenses by $364,303 on pages 10 and 65 of the Staff Report. The Staff should have only excluded those legal expenses associated with refinancing efforts. The Staff should have allowed a legal expense of $135,006 as this is a more appropriate legal expense component that ONG will face in the future. Thus, the legal expense component suggested in the Staff Report should be increased by $84,000 as this constitutes a reasonable and ordinary business expense that should be recognized in the cost of service.

19. The Staff unreasonably and unlawfully excluded $4,447 in fuel expenses in what it deemed to be non-utility related uses at pages 10 and 66 of the Staff Report. The excluded amount of $4,447 represents approximately two tanks of gasoline per week. The president/employee's position requires at least one tank of gasoline per week. The exclusion should only be $2,223.50 for fuel expense.

20. The Staff unreasonably and unlawfully excluded $163,428 in other expenses from the cost of service because these expenses have been determined to be non-utility related and do not provide direct benefits to customers. The excluded amounts should have only been $102,887. The Staff should have allowed $7,914 in consulting fees instead of eliminating $15,000. When the application was filed it was expected that consultation for fuel procurement and certain field work would be needed and were outside the scope or expertise of the general manager. However, Mr. Stenger performed those tasks at the time before taking over the general

manager's position in October. Thus, Mr. Stenger did not earn the consulting fee while also receiving the general manager's fee. The actual consultation fees in the test year were only $7,914. The Staff should allow the actual amount paid for consulting fees of $7,914.

The Staff should reduce the exclusion for insurance medical to $1,213. Since the president/employee position was believed to be eliminated and ONG has filled that position within the test year, medical insurance coverage is a reasonable expectation for the president of utility.

The Staff rejected the entire Christmas bonus. After reviewing the bonus and making two corrections, a bonus of 2.5% or some $12,500 would be more in line with the industry practice and should be recognized in the cost of service.

The Staff eliminated the payment to a subcontractor for billing system expenses. I have reviewed the invoices and found that one of the payments in the test year was improperly categorized and was a valve maintenance expense of $4,021. This April, 2006, valve replacement should have been capitalized. However, the remainder of the subcontractor expenses are standard maintenance and should be expensed. The exclusion for this account should be limited to just $4,021 which was improperly included.

The Staff eliminated the vehicle allowance. The president/employee position was not and should not be eliminated and it is reasonable to have an allowance for a four wheel drive vehicle. Instead of a test year expense of $11,284 ($940 per month), an all weather off road vehicle can be leased or purchased for $600 per month or $7,200. Thus, the Staff should have allowed $7,200 as a reasonable and ordinary business expense.

Finally, the Staff eliminated all travel of $24,141. After reviewing invoices, there were several trips to Columbus for Safety Institute meetings or meetings with the PUCO.

Instead of reducing the travel budget to $0, we believe that an 80% reduction in travel expense is appropriate.

21. The Staff unreasonably and unlawfully excluded $6,436 in billing expense on pages 10 and 68 of the Staff Report. The Staff should have included an allowance for the purchase of billing stock at $0.02 times 48,000 bills, the mailing of budget billing open enrollment inserts (two months), a total of 8,422 inserts at $0.10 each, and an allowance for postage deposit and other safety message inserts. The billing vendor requires a postage deposit in advance of billing at all times. The Staff should have restored the entire $6,436 in billing expenses.

22. The Staff unreasonably and unlawfully reduced accounting expense by $16,673. The Staff should have booked the cost associated with press professional services required for an audit of 2004 financial statements in May, 2005 as a normal audit expense for the prior fiscal year. May, 2005 actual expenses were used to estimate the May, 2006 month of the test year. Accepting the Staff allocation of 95.79%, the test year expense should be adjusted to $44,354, which yields a reduction of only $1,949.

23. The Staff unreasonably and unlawfully removed $35,188 from miscellaneous expenses as shown on Staff Report pages 11 and 71. These expenses are utility related expenses and should have been included in the cost of service. However, the reduction should have only been for $30,340. The Staff should have included $18,544 in payments to merchant banks to permit customers to use their bank card on ONG invoices during the test year. Payments with bank cards is a service desired by customers and should not be taken away. The Staff should not have excluded an Ohio Gas Association seminar expense of $64.00 as it is important for ONG Staff to keep informed of changes in the industry. The Staff also excluded all but $1,587 of the

original $5,979 in vehicle maintenance. Eliminating the repairs and tire replacements totaling $2,920 achieves the proper balance between future savings and good maintenance. Thus, the vehicle maintenance reduction should only be $2,920 associated with those two vehicles. These are appropriate utility vehicle maintenance expenses.

The Staff also reduced meal expenses from $2,093 down to $767. After having reviewed the invoices, we accept most of the Staff reductions but we believe that there were legitimate expenses of $1,107. Thus, the adjusted reduction should be $985.

24. The Staff should not have reduced the modest computer expenditure of $474 by $148. The entire $474 is a reasonable amount and spending on computerization more than pays for itself in an increase in productivity. The Staff should have allowed the entire $474.

25. The Staff unreasonably and unlawfully reduced depreciation expense by $15,727. The Staff did find that the depreciation accrual rates were appropriate. When the Commission corrects the Staff's errors in plant and service, the application of the current depreciation accrual rates to the plant and service will produce an appropriate depreciation expense level.

26. The Staff unreasonably and unlawfully reduced taxes other than income by $5,972 on pages 11-12 and 74 of the Staff Report. The Staff should have calculated the FICA tax by applying a rate of 7.65% times the labor expense of $505,123. Thus, FICA tax should be $38,642, an increase of $20,173 from the Staff Report. Further, state unemployment (SUTA) and federal unemployment (FUTA) should have been calculated by multiplying 10 times $9,000 times 3.10% plus 10 times $7,000 times 0.80%. This equals $3,350 which differs from the $2,345 recorded in the Staff Report. These calculations yield a total taxes other than income taxes of $87,268, an increase of $21,178 over the Staff Report. The Staff should have recalculated FICA tax and state unemployment and federal unemployment tax in this manner.

27. The Staff unreasonably and unlawfully excluded lease expense for vehicles and lease expense for construction equipment from the cost of service. The subject vehicles in construction and equipment consist of two vans, a crew truck, and a service truck. All four vehicles have roughly 100,000 miles on them. They are at the end of their useful service life. A utility simply cannot operate in a manner to provide the public with service without dependable trucks and vans. ONG surveyed what it would cost to lease such vehicles during the test year. Due to its financial plight, ONG was simply not in a position to sign leases for such vehicles and equipment. These are ordinary and necessary business expenses needed in order to provide service to customers. The Staff should have adjusted the cost of service by including a leasing expense of $31,200.

Rate of Return

28. The Staff unreasonably and unlawfully recommended a rate of return of between 9.5% and 10.5%. The Staff should have recommended a rate of return on 11%.

Rates and Tariffs

29. The Staff unreasonably and unlawfully recommended that ONG's initial bad debt rider be set at $0. The Staff should accept an estimate of $0.05 per mcf for bad debt that was included in general service sales in 2002. Following the Staff's methodology, the Commission should allow a collection of bad debt to be $0.17 per mcf.

30. The Staff unreasonably and unlawfully recommend that ONG perform a cost of service study for future use so that the company can develop an appropriate transportation tariff that offers rates that are downwardly flexible from the maximum rates. The Staff failed to provide any allowance for such a study in allowable expenses in this case.

31. The Staff unreasonably and unlawfully recommended a customer charge of $6.00 per customer for both residential and commercial customers. None of the 11 gas utilities the Staff used charge the $6.00 rate and the mode is $7.00, closer to ONG's proposed $7.50. Of the 11 representative gas companies the Staff looked at, nine had separate higher meter rates for non-residential users. This comports with information from the American Meter Company's salesman listing that ONG presented to the Staff showing that commercial meters are significantly higher in cost than residential meters. ONG's requested $15.00 for a non-residential meter is lower than most of the non-residential meter customer charges used by the Staff's 11 representative utilities. The Staff also failed to recognize that a significant number of ONG customers are students at Miami University who leave the system in May and return in August.

32. The Staff unreasonably and unlawfully recommended a volumetric rate of $0.7623 per MCF for all MCF. The Staff's rate does not provide reasonable compensation to ONG nor is it reasonable in light of the rates for service provided by comparably sized other Ohio natural gas companies.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that Objections to the Staff Report of Oxford Natural Gas Company which was filed in Case No. 06-350-GA-CMR was served upon the following persons in the manner set forth below on this 5th day of March, 2007.

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