BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Regulation of the Purchased Gas Adjustment Clauses Contained Within the Rate Schedules of the Waterville Gas & Oil Company and Related Matters.	)	Case No. 13-217-GA-GCR
In the Matter of the Uncollectible Expense Rider of the Waterville Gas & Oil Company and Related Matters.	)	Case No. 13-317-GA-UEX

OPINION AND ORDER

The Commission, having considered the Stipulation and Recommendation, and the record in these proceedings, and being otherwise fully advised, hereby issues its Opinion and Order.

APPEARANCES:

Mike DeWine, Ohio Attorney General, by Werner Margard III, Assistant Attorney General, 180 East Broad Street, Columbus, Ohio 43215, on behalf of the Staff of the Public Utilities Commission of Ohio.

OPINION:

I. INTRODUCTION

Waterville Gas & Oil Company (Waterville or the Company) is a natural gas company as defined in Section 4905.03(A)(5), Revised Code, and is a public utility under Section 4905.02, Revised Code. Waterville is also a gas company within the meaning of Section 4905.302(C), Revised Code, pursuant to which this Commission promulgated rules for a uniform purchased gas adjustment clause to be included in the schedules of natural gas companies subject to the Commission's jurisdiction. These rules, which are contained in Chapter 4901:1-14, Ohio Administrative Code (O.A.C.), separate the jurisdictional cost of gas from all other costs incurred by a natural gas company and provide for each company's recovery of these costs.

Section 4905.302, Revised Code, 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, Rule 4901:1-14-07, O.A.C., requires that periodic audits of each gas or natural gas company be conducted. Section 4905.302(C), Revised Code, and Rule 4901:1-14-08(A), O.A.C., require the Commission to hold a public hearing at least 60 days after the filing of an audit report and Rule 4901:1-14-08(C), O.A.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.

On January 30, 2013, the Commission initiated Case No. 13-217-GA-GCR (GCR case) by the issuance of an entry which established a financial audit review period, the date of hearing, and due dates for various filings. The Commission also directed the Company to publish notice of the hearing. On March 14, 2013, Staff filed its GCR audit report for the period February 1, 2011 through January 31, 2013.

By Opinion and Order issued in Case No. 07-194-GA-AIR, the Commission approved a stipulation and recommendation between Waterville and Staff, which, among other things, provided for the establishment of an uncollectible expense (UEX) rider. By entry issued January 30, 2013, in Case No. 13-317-GA-UEX (UEX case), the Commission established the audit period for Waterville's UEX rider and the date upon which the audit report must be filed. The UEX audit report reviews the audit period January 1, 2011 through December 31, 2012. On March 4, 2013, Staff filed its audit report in the 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.

The public hearing was held, as scheduled, on May 14, 2013, at the offices of the Commission. No public witnesses testified at the hearing. At the hearing, Staff offered into evidence the GCR audit report (Staff Ex. 1), the UEX audit report (Staff Ex. 2), and the Stipulation and Recommendation (Stipulation) signed by Waterville and Staff (Joint Ex. 1). The Stipulation, if adopted by the Commission, will resolve all of the issues in this case. Also, the proof of publication of notice of the hearing was admitted into evidence at the hearing (Waterville Ex. 1).

II. AUDIT REPORTS

A. General

Waterville provides natural gas utility service to approximately 6,014 customers. Waterville is subject to the Commission's jurisdiction with regard to approximately 3,916 of those customers. The remaining 2,098 nonjurisdictional customers are served under ordinance rates negotiated with the Village of Waterville. As of December 2012, Waterville served approximately 5,761 residential customers and 253 commercial customers in Lucas and Wood counties, Ohio. Since the last GCR audit, Waterville's customer base has grown by slightly more than three percent and all have been jurisdictional customers. (Staff Ex. 1 at 3.)

B. GCR Audit Report

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 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. (Staff Ex. 1 at 4.)

In Staff's review of the Company's EGC calculations it considered supply sources, purchase volumes, and sales volumes. Staff notes that Waterville entered into a 15-month gas sales agreement with Atmos Energy Marketing, LLC (Atmos) to commence on January 1, 2007 through April 1, 2008. In January of 2008, Atmos and Waterville amended the sales agreement to extend through March 2011. The parties further amended the sales agreement in September of 2009, to extend the term of the agreement through March 2015. The agreement provides that Waterville assign its general transportation service (GTS) on Columbia Gas Transmission (CGT) to Atmos. Atmos, 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. Atmos invoices Waterville for the commodity purchases plus shrink, Columbia Gulf Transmission (Columbia Gulf) demand and volumetric charges, GTS volumetric charges, management fees, and a transportation credit for all non-GTS deliveries. (Staff Ex. 1 at 4.)

In its review of purchase and sales volumes, Staff notes that Atmos invoices detail volumes purchased on behalf of Waterville and takes into account shrink on Columbia Gulf and CGT. In addition to detailing storage injections and withdrawals, the Atmos invoices include a monthly balance of gas currently in storage. Staff reviewed the Atmos invoices and verified that purchase volumes and costs were correct for each month of the audit period. Staff also reviewed the Atmos invoices to determine that costs were properly included for recovery through the GCR. (Staff Ex. 1 at 4.)

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 weighted average cost of gas (WACOG) calculation and the resulting price is recoverable through the GCR when volumes are withdrawn from storage. Staff verifies 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.)

Waterville's monthly billing registers detailed both jurisdictional and nonjurisdictional sales volumes. The GCR mechanism is applied to all sales. As a part of the GCR audit, Staff verifies that sales volumes included in GCR filings equaled those detailed in the monthly billing registers. (Staff Ex. 1 at 5.)

In its report, Staff recalls that, in a prior Waterville GCR audit, Case No. 07-217-GA-GCR, Staff recommended that Waterville place into effect an EGC calculation that incorporates the commodity pricing provisions contained within its service agreement with its procurement manager and the associated transportation services expected to be used to move gas to its city gate, along with costs that can be reasonably anticipated for the month in which that EGC is in effect. (Staff Ex. 1 at 5.)

As part of its EGC review, Staff compared the Company's EGC filings with market pricing, cost per unit calculations, and sales volumes. Staff also examined the differences between the New York Mercantile Exchange, EGC, and the average cost per unit as contained in the Company's actual adjustment calculation. Staff summarized its findings in a table. (Staff Ex. 1 at 5-6.)

In a prior Waterville GCR audit, Case No. 09-217-GA-GCR, the Commission ordered Waterville to implement Staff's recommendations to reduce the Company's over-collections from its customers. For the years ending July 2011 and July 2012, Waterville over-collected $443,297 and $215,076, respectively. Staff notes that over-collections for July 2011 and July 2012 are relatively consistent with the over-collection amounts in the Company's previous GCR audit in Case No. 11-217-GA-GCR (11-217). Staff recommends that Waterville continue to refine its EGC calculation so that the Company continues to reduce its over-collection from customers. (Staff Ex. 1 at 5.)

Staff reviewed Waterville's purchase invoices, sales volumes, and worksheets used in the calculation of the Company's Actual Adjustment (AA) and found no errors. Therefore, Staff has no recommendations as to the AA. (Staff Ex. 1 at 7.)

The Refund and Reconciliation Adjustment (RA) is used to return the jurisdictional portion of refunds received from gas suppliers and adjustments ordered by the Commission. The Commission did not order and the Company did not have any refunds from suppliers during the prior audit period in 11-217. Waterville had one refund from CGT that went into effect August 2012. Staff will review the CGT refund in the next audit. Accordingly, Staff has no recommendations as to the RA. (Staff Ex. 1 at 8.)

Staff reviewed Waterville's Balance Adjustment (BA) calculations contained in the filings under review during this audit period. Staff concludes that the Company properly calculated the BA during this audit period and, therefore, has no recommendations. (Staff Ex. 1 at 9.)

Staff also evaluated Waterville's unaccounted-for gas and customer billing. Based on its review, Staff had no recommendations in these areas. Staff concluded, to the extent noted in the audit report, that Waterville accurately calculated and billed its customers the GCR rates for the audit period. Additionally, Staff reviewed the Company's management and operations issues, including supply, market area, and operation. Based on its review, Staff had no recommendations in these areas. (Staff Ex. 1 at 2, 10-13.)

C. UEX Audit Report

By Finding and Order issued on August 19, 2009, in Case No. 08-1229-GA-COI, all natural gas companies with UEX riders, including Waterville, were directed to file annual reports detailing their bad debt accounts and bad debt recovery calculations (Staff Ex. 2 at 2).

Staff reviewed Waterville's collection practices and procedures. Staff concludes that, consistent with the Company's practices and procedures, Waterville wrote off customers' account balances at least 60 days after a customer's final payment and, where the Company is provided official notice that a customer has filed for bankruptcy, Waterville immediately writes off the account balance. (Staff Ex. 2 at 2.)

As a part of the audit, Staff also verified the Company's write-offs as shown on its annual balance reconciliations for 2011 and 2012. Waterville recorded its write-offs in its uncollectible accounts expense rider detail summaries. Staff reviewed the summaries and discovered that Waterville wrote off 19 accounts totaling $2,548.47 during the audit period. The Company reports $883.91 was recovered during the audit period. Staff confirmed the amounts written-off and recovered as reported in Company records and the Annual Balance Reconciliations for 2011 and 2012. (Staff Ex. 2 at 2-3.)

Staff also examined the amount of recoveries for July and August of 2011 and 2012 to verify the correct UEX rate was applied. Based on its examination, Staff determined that Waterville accurately applied the amount of sales volumes to the applicable Commission-approved UEX rider rate. Staff also reviewed customer bills for July and August of 2011 and 2012. Staff found that Waterville correctly applied the appropriate UEX rider rates to customer accounts. Based on its review, Staff had no recommendations regarding Waterville's UEX rider. (Staff Ex. 2 at 3-4.)

III. STIPULATION

On May 13, 2013, the parties filed a stipulation that, if adopted, would resolve all of the issues in these proceedings. 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. The Stipulation includes the following provisions:

(1) Waterville's GCR rates were accurately calculated by Waterville during the GCR audit period, in accordance with the provisions of Chapter 4901:1-14, O.A.C.

(2) All findings and recommendations contained in the GCR audit report are reasonable and should be adopted. Waterville should continue to refine its EGC calculation, to continue to reduce over-collections from its customers and to continue its practice of accurately calculating its GCR rate.

(3) All findings contained in the UEX audit are reasonable and should be adopted. Waterville accurately applied the appropriate UEX rider rate to customer bills and to monthly sales volumes throughout the audit period.

(4) Pursuant to the requirements of Section 4905.302(C), Revised Code, and Rule 4901:1-14, O.A.C., Waterville caused notice of the hearing to be published in a newspaper of general circulation throughout Waterville's service territory.

(Joint Ex. 1 at 2-4.)

IV. CONCLUSION

Rule 4901-1-30, O.A.C., 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.* (1992), 64 Ohio St 3d 123, at 125, 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.

The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. *See, e.g., Dominion Retail v. Dayton Power and Light*, Case No. 03-2405-EL-CSS *et al.*, Opinion and Order (February 9, 2005); *Cincinnati Gas & Electric Co.*, Case No. 91-410-EL-AIR, Order on Remand (April 14, 1994); *Ohio Edison Co.*, Case Nos. 91-698-EL-FOR et al., Opinion and Order (December 30, 1993); *Cleveland Electric Illum. Co.*, Case No. 88-179-EL-AIR, Opinion and Order (January 31, 1989). 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?

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.

Based on our three-pronged standard of review, we find the first criterion, that the process involved serious bargaining by knowledgeable, capable parties, is met. Waterville and Staff have been involved in numerous cases before the Commission, including a number of GCR cases. Moreover, these parties have provided helpful information to the Commission in cases regarding fuel-related policies and practices. 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 Waterville's GCR and fuel-related policies and practices, as well as the UEX rider, for the audit periods. Moreover, the Stipulation meets the third criterion because it does not violate any important regulatory principle or practice. Rather, the Stipulation incorporates the recommendations of Staff to continue to improve the service Waterville provides to its customers, and to reduce gas costs and GCR rates. Staff witness Roger Sarver, testified that the Stipulation satisfies all three prongs of the standard of review employed by the Commission in considering stipulations (Staff Ex. 1 at 8-9; Tr. at 6-10). 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.

FINDINGS OF FACT AND CONCLUSIONS OF LAW:

(1) Waterville is a natural gas company within the meaning of Section 4905.03(A)(5), Revised Code, and, as such, is a public utility subject to the supervision and jurisdiction of this Commission.

(2) Pursuant to Section 4905.302, Revised Code, and Rule 4901:1-14-08, O.A.C., the GCR docket was initiated by the Commission's entry of January 30, 2013, to review Waterville's GCR rates.

(3) A GCR audit of the period February 1, 2011 through January 31, 2013, was performed by Staff of the Commission in compliance with Section 4905.302, Revised Code, and Rule 4901:1-14-07, O.A.C. Staff filed the GCR audit report on March 14, 2013.

(4) Staff completed an audit of Waterville's UEX rider for the period January 1, 2011 through December 31, 2012 and filed the UEX audit report on March 4, 2013.

(5) Pursuant to Section 4905.302(C), Revised Code, and Rule 4901:1-14-08(A), O.A.C., a public hearing was held on May 14, 2013. No public witnesses appeared to testify at the hearing.

(6) The company published notice of the hearing in compliance with Rule 4901:1-14-08(C), O.A.C.

(7) The parties submitted a Stipulation in these proceedings, which, if adopted, resolves all outstanding issues in these matters.

(8) The Stipulation submitted by the parties in these cases meet the criteria used by the Commission to evaluate stipulation, represents a just and reasonable resolution of the issues in these proceedings, and should be adopted.

(9) To the extent noted in the audit report, the Company's determination of its GCR rates for the audit period was in accordance with the financial and procedural aspects of Chapter 4901:1-14, O.A.C., 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.

(10) Waterville accurately calculated the UEX rider rates and properly applied the UEX rider to customer bills during the UEX audit period.

It is, therefore,

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

ORDERED, That the auditor selected to conduct the company's next GCR audit review Waterville's actions in carrying out the terms of the Stipulation. It is, further, ORDERED, That a copy of this Opinion and Order be served upon all interested persons of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler

Todd A. Snitchler, Chairman

Steven D. Lesser

Lynn Slaby

M. Beth Trombold

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