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A report by the Staff of the Public Utilities Commission of Ohio

Brainard Natural Gas Company
13-206-GA-GCR

Financial Audit of the Gas Cost Recovery Mechanisms for the Effective GCR Periods July 1, 2011 through June 30, 2013

Ohio | Public Utilities Commission

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Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audit of Brainard Gas Corporation (Brainard or Company) gas cost recovery (GCR) rates for July 1, 2011, through June 30, 2013. The Staff audited for conformity with the procedural aspects of the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, O.A.C and related appendices, and by Commission Entry signed on January 30, 2013, in Case No. 13-206-GA-GCR.

Our audits have revealed certain findings, as discussed in this audit report, which should be addressed in this proceeding. The Staff notes that at the time of preparing this report, unless otherwise noted, Brainard accurately calculated its gas cost recovery rates for those periods under investigation in accordance with the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, O.A.C, and related appendices, except for those instances noted in the Executive Summary of this audit report. The Staff has performed investigations into these specific areas and respectfully submits its findings and recommendations.

Jodi Bair

Jodi Bair
Director, Utilities Department
Public Utilities Commission

Section I

Executive Summary

Audit Work Program

Staff's investigation consisted of several components. Staff initially submitted a data request to Brainard requesting documentation necessary to recalculate the Company's purchased gas costs, purchase volumes, customer billings, sales volumes and informational items such as number of customers and transportation through-put. Staff reviewed and evaluated the data responses along with relevant documents from within the Commission in preparation for the audit. Staff conducted investigative interviews with appropriate company personnel and examined related supplier invoices and spreadsheets at the Company's office in Mentor, Ohio.

Commission Opinion and Order in Case No. 11-206-GA-GCR

In the 2011 audit of Brainard, the Commission found that Brainard's supply agreements with affiliates were not prudently negotiated or executed and were not in the best interest of its ratepayers. The Commission directed Staff to ensure that Brainard responds appropriately to concerns of consumer protection for their regulated ratepayers, and that it rectifies its previous poor behavior going forward.

The Commission also found that Brainard, as well as in the 2010 Orwell Natural Gas Company (Orwell) and Northeast Ohio Natural Gas Corporation gas cost recovery audits (NEO, collectively known as "Companies"), had benefited from undesirable market conduct, and found that this conduct was unacceptable. As a result of these findings, the parties to the 2010 cases agreed to develop a request for proposal (RFP) for the solicitation of a competitively bid gas supplier. The Commission directed Staff, in the course of its next audit, to review the RFP and selection processes.

Staff's Audit Findings and Recommendations in NEO and Orwell 2012 Audits Case Nos. 12-209-GA-GCR and 12-212-GA-GCR

The Commission directives from its 2010 Opinion and Order were incorporated by Staff into the scope of its 2012 audit of NEO and Orwell. Staff filed its 2012 NEO and Orwell audit report on February 28, 2013.

Below are some of the findings and recommendations from the 2012 audit report of Orwell and NEO, which mirror Brainard and reflect the common management and procurement functions that existed among the three Companies. After each of the 2012 findings and recommendations (in italics), Staff has inserted its findings as they relate to the 2013 audit of Brainard.

Staff recommends NEO and Orwell examine on a monthly basis its least cost options for meeting its sales customers' requirements through its different supply sources. Staff believes that the *solicitation of bids from non-affiliated marketers as well as futures pricing will allow the companies to alter their supply mix within the physical constraints of their systems to accommodate lower priced supplies on a month to month basis. Staff believes in this audit, as it did in the last audit, that the Companies have the employees with the skills and training to purchase their own interstate and local supplies. Staff also believes the unsolicited insertion of JDOG into the gas procurement function has resulted in increased costs and little benefit. Staff recognizes that the Companies have recently selected JDOG as their asset manager for local and interstate supplies, but that does not relieve them of their responsibilities to ensure that the cost they seek to recover through their GCR is the least cost option for their customers.*

Staff found that during the course of its audit, NEO and Orwell purchased solely from Gas Natural Service Company (GNS), who in turn purchased solely from John D. Oil and Gas Marketing Co. (JDOG). The same purchasing practices were in place for Brainard.

The Companies have the right and the responsibility to carefully review and question the prices and quantities of each invoice that they receive from Gas Natural Service Company (GNS). GNS has been inserted into the process to ensure that the Companies pay according to the contractual terms, but as noted in this audit and last audit, the pricing provisions were not least cost options. It is still the Companies' responsibility to ensure that they pay market prices, and simply accepting the invoices presented by GNS is not what determines if the prices are market based.

GNS was not contractually bound to purchase gas from JDOG for NEO, Orwell and Brainard, but did so without exploring alternative suppliers.

Staff recommended in the prior audit that Companies reject supply and asset management agreements with its related party marketer JDOG. Staff believed these contracts were terminated with the Commission's Opinion and Order on October 26, 2011, in which it adopted the stipulation between the companies, Staff and OCC. The pricing of local production was a concern that Staff raised in the prior audit, and that pricing was still in place through a portion of this audit.

Brainard's billings for local production mirrored those of Orwell.

Staff can find little evidence that the Companies reviewed the pricing determinant in their bills, which resulted in substantial costs being borne by their customers. Staff can only find instances in which the service company, GNS, compared billed prices to confirmation sheets, but no comparison to pricing in the market. Staff believes that the insertion of GNS into the process for contractual adherence and review did not alleviate any of Staff's concerns, but simply added to the confusion that already existed in determining the cost incurred to meet these companies' supply requirements.

GNS also entered into agreements for local production with related parties, such as Great Plains Exploration, Ltd., from whom JDOG had solicited bids. However, Staff could not find an instance where non-affiliated local producers were solicited for bids.

Staff found that JDOG billed its agency/broker fees to the Companies for the entire audit. The Companies ceased seeking recovery of these fees through their GCRs as of September 2011. These agency/broker fees were paid out of the Companies' non-GCR revenue, thus reducing *funds available for operations and dividends. In the event that either of these companies files an application for rate relief or issuance of security/debt, Staff recommends that all costs for which the Company seeks to recover through their rates and/or riders be closely examined.*

Brainard ceased seeking recovery of the JDOG agency fees through its GCR in mid 2011 but was billed and paid these fees through November 2012. The payments of the JDOG agency and broker fees may have been from base rate revenue, thus reducing the funds that Brainard had available to pay non-related party invoices.

Staff recommends that the Commission find that the RFP process did not lead to competitive bids as required by the Stipulation and as ordered by the Commission in Case No. 10-209-GA-GCR et al. Therefore, Staff recommends that the Commission reject the results of the RFP process and order the Companies to start a new RFP process that includes the input of Staff, OCC and the companies' technical and operational staff. Staff also recommends that the bidder that was selected by the companies be rejected.

Staff believes these audit findings and recommendations identified in the 2012 Northeast and Orwell cases should be incorporated into this case.

2012 NEO and Orwell Opinion and Order (2012 O&O)

Below are portions of the Commission's 2012 NEO and Orwell Opinion and Order (in italics) that Staff finds relevant to this case.

Commission Conclusion on the RFP

The burden of proof to show that the RFP preparation, design, implementation, solicitation, and the ultimate selection of the winning bidder was prudent is on the Companies. Upon review of the record in these cases, it is clear that the Companies have not sustained their burden of proof in that the Companies failed to undertake a reasonable RFP process and acted imprudently in designing and implementing a reasonable RFP. .... As we have determined that the RFP and the results were flawed, we believe that the evidence demands that another RFP should be undertaken with the consent of Staff and OCC and final approval of Staff.

Commission Conclusion on Local Production

As noted previously, R.C. 4905.302(E) provides the standard for reviewing the gas purchasing practices of the Companies, and allows recovery of only prudent and reasonable costs of gas to a natural gas company. Further, Ohio Adm.Code 4901:1-14-08(B) provides that the Companies must demonstrate that their gas cost recovery rates were fair, just, and reasonable and that their gas purchasing practices and policies promote minimum prices consistent with an adequate supply of gas. Based on the evidence, the Commission finds that the Companies failed to sustain their burden of proof. The evidence shows that the gas costs were not fair, just, and reasonable and their gas purchasing practices and policies did not promote minimum prices consistent with an adequate supply of gas. Furthermore, Staff and OCC produced sufficient evidence to *demonstrate the prices paid by the Companies for local production were unreasonable and imprudent.... In addition, as we ordered in the 2010 GCR Audit Cases, all contracts with JDOG shall be voided and the Companies will commence all local and interstate gas purchases using in-house personnel.*

Conclusion on Practices by the Companies and Affiliates

The Commission finds that an investigative audit of the Companies and all affiliated and related companies should be undertaken by an outside auditor. The outlines and extent of the investigative audit shall be proposed by Staff based on the evidence of record from this audit. ... In the context of the investigative audit, we direct the Companies to fully cooperate with any and all requests for information made by Staff and auditor. In addition, any parties named to be part of this investigative audit will be given notice of the proceeding and the opportunity to participate in any hearings, the opportunity to present or cross-examine witnesses, and permitted to present evidence on any subject to be examined at the hearing. In the event we determine, based on the findings of the investigative audit that a COI should be opened, we will open such a COI.

2013 Brainard Audit Recommendations

A directive from the 2011 Commission Order was for the Company to work with Staff in providing clarification of its new procedures for taking telemeter readings on the delivery meters of its largest transportation accounts. In this audit, Staff was provided with meter reading summaries for sales and transportation customers. From these summaries, it appears that the Company began to read its transportation customers meters using visual inspection on April 1, 2012. The reading of the meter on the first day of the month coincides with Cobra Pipeline's (Cobra) reading of its Bridge Road meter. After the April 1st date, the Company's visual reads varied between 8:00 am and 1:30 pm. Cobra electronically reads it Bridge Road meter at 10:00 am on the 1st of the month, every month. The timing difference between Cobra's 10:00 am electronic meter read and the Company's visual reads of its largest transportation customers has been reduced from days down to hours, but still allows for variances to exist. The Company's visual meter reading of its largest transportation customer could be done closer to the 10:00 am time, thus eliminating nearly all of the meter reading variances. The combined average hourly usage of Brainard's largest transportation customer was 29 Mcf, and when multiplied by three hours, the variance is nearly 100 Mcf.

Again, as in 2009 and 2011, Staff recommends that Brainard sequence the reading of its meters to ensure that its largest transportation customers served behind the Bridge Road Meter are read as close as possible to the time Cobra reads its Bridge Road meter.

A second directive of the 2011 order was the review by Staff of the Company's RFP process. Staff reviewed the RFP process in the course of its 2012 audits of NEO and Orwell and has submitted its recommendations to the Commission.

The final directive from the 2011 order was to ensure that the Company responded appropriately to the Commission's concerns regarding consumer protection. This issue was evident in the 2012 audits of NEO and Orwell. Staff finds that Brainard, NEO and Orwell were operated by the same management and utilized the same gas procurement process, therefore the findings of NEO and Orwell are equally applicable to Brainard.

The last two directives mentioned above were addressed by the Commission in its 2012 Opinion and Order (2012 order) of NEO and Orwell. Staff recommends that these portions of the 2012 Order, as related to the RFP process and consumer protection (Company and Affiliate Practices) be adopted by the Commission for Brainard.

The following is a summary of the Staff's recommendations contained in Sections II through VIII of this report. They are specific to the 2013 Brainard audit.

Transportation Customers: Staff recommends that Brainard file all transportation agreements with the Commission that deviate from its tariff. Staff found Brainard has transportation agreements with customers that contain provisions that are not included in its tariffs. Staff believes that Brainard should provide services that are consistent with its tariffs or file an application with the Commission for approval of its special contracts.

Staff also recommends that Brainard maintain imbalance accounts as required by its tariffs. Staff requested the transportation customer imbalances and was informed that this information was not retained.

Actual Adjustment: Staff recommends the Commission find Brainard's affiliate supply agreements to be imprudent, and adopt Staff's calculation of purchased gas costs as contained in the Actual Adjustment. Staff's calculation reflects the cost of purchasing gas absent any affiliated costs or fees.

Staff recommends a reconciliation adjustment of ($7,988) in the customers' favor as shown in Table I. This reconciliation adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

Refund and Reconciliation Adjustment: Staff recommends that in the next audit it examine the 2011 Commission ordered reconciliation to ensure that the amount was refunded for 12 consecutive months.

Balance Adjustment: Staff recommends a net reconciliation adjustment of ($363) in the customers' favor as shown in Table II. This reconciliation adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

Future Audits: Due to the fact that Brainard, NEO and Orwell are all operated by the same management and procure gas from the same supplier, Staff recommends that for 2014, the Brainard GCR audit be combined with and conducted at the same time as the NEO and Orwell GCR and UEX audits. This would more closely align the Company's audit period with NEO and Orwell, while at the same time allowing for the timely implementation of the Commission's recommendations and directives for all three companies.

Section II

Company Profile

Background

On August 19, 1999, in Case No. 99-825-GA-ATA, the Commission approved the withdrawal of Power Energy Distribution, Inc. (Power Energy) tariffs and the adoption of Brainard Gas Corporation tariffs, as Brainard took over operations of the distribution system formerly operated by Power Energy. At that time all of Brainard's outstanding shares were held by the company's president Edward Bonk. Mr. Bonk sold his shares to Robert Osborne, who was the Chairman of Orwell Natural Gas Company (Orwell), in March 2006. Following the sale of shares by Mr. Bonk to Mr. Osborne, the operations and maintenance of the Brainard system was taken over by Orwell but Brainard continued to operate as a separate regulated corporate entity. On October 29, 2008, Energy West, Inc. (Energy West) filed a joint application along with Brainard, Orwell and Northeast Ohio Natural Gas Corp. (Northeast) for the approval of a transfer of stock. On December 3, 2008, the Commission approved the transfer of Brainard, Orwell and Northeast stocks to Energy West.

Operations

Brainard serves two townships, Middlefield and Parkman, in the southeastern portion of Geauga County, Ohio, as well as customers in Lake County who are adjacent to the Orwell-Trumbull Pipeline.

Brainard provides natural gas utility service to 138 residential and small commercial customers as of June 2013. Annual sales volumes for Brainard in 2011 were 32,558 Mcf and 23,253 Mcf in 2012. In addition to its sales customers, the Company provides transportation service to 19 small and medium volume customers and three large volume customers. Transportation volumes for 2011 were 297,471 Mcf and for 2012 260,221 Mcf.

Affiliates

From 2006 through October 2008, Mr. Richard M. Osborne was the sole shareholder of Brainard Gas Corporation (Brainard). At that time Orwell Natural Gas Company (Orwell) was a wholly owned subsidiary of Lightning Pipeline Company (Lightning) and Northeast Ohio Natural Gas Corporation (Northeast) was a wholly owned subsidiary of Great Plains Natural Gas Company (GPNGC). Lightning and GPNGC were owned primarily by the Richard M. Osborne Trust in which Mr. Richard M. Osborne is the sole trustee.

On October 28, 2008, Energy West Incorporated (Energy West), along with Brainard, Orwell and Northeast jointly filed an application with the Commission for approval to transfer stock. With approval of the application, 100% of the stock of these three Ohio gas utilities would be purchased by Energy West. On December 3, 2008, the Commission approved this transfer of stock. In August 2009, Energy West completed reorganization into a holding company as the successor to Energy West, now a direct, wholly-owned subsidiary of Gas Natural Inc. (Gas

Natural). Gas Natural is a publicly traded company to which Mr. Osborne is a shareholder, chief executive officer and chairman of the board.

Related Parties

The Richard M. Osborne Trust is also the majority shareholder for the following companies:

John D. Oil and Gas Marketing Co., LLC, (JDOG),
Great Plains Exploration, LLC. (GP),
Cobra Pipeline Co., LTD (Cobra) and
Orwell-Trumbull Pipeline Co., LLC (OTP).

All of these related parties conducted business with Brainard during the audit period.

In this audit, Brainard's related party purchases represented all of the purchase volumes and costs billed to the Company's sales customers. Staff has examined these purchases and the related party contracts that support them.

Recommendations

Staff has no recommendations for this section.

Section III

Expected Gas Cost

Staff has reviewed Brainard's calculations of their 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 twelve-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 twelve-month historical sales to develop an EGC rate to be applied to customer bills.

In reviewing the Company's calculations of the EGC, the Staff makes the following observations concerning purchase volumes and sales volumes.

Supply Sources

Brainard's gas supplies are delivered from a combination of local production and interstate supplies, even though it does not have any direct connections to an interstate pipeline. In order for Brainard to receive its interstate supplies, volumes are transported to its city-gates through interconnections with Cobra Pipeline Co., LTD. (Cobra) and Orwell-Trumbull Pipeline Company, LLC (OTP).

Cobra is an intrastate pipeline which connects Brainard to Columbia Gas Transmission Corporation (TCO). Cobra was originally part of TCO prior to being sold to Cobra. Cobra initiated service to Brainard in February 2008. Brainard had in place a Transportation Service Agreement with Cobra which provided Brainard interruptible transportation of volumes delivered on TCO. Cobra's transportation rate is set by its tariff.

OTP is an intrastate pipeline. OTP connects Brainard to North Coast Gas Transmission, LLC (North Coast). North Coast in turn is connected to Crossroads Pipeline with supplies sourced out of the Chicago market. OTP is a high pressure pipeline operated by Orwell under an agreement approved by the Commission in Case No. 06-476-GA-ATA, on May 26, 2006. OTP also has local production delivered directly into its system. The North Coast and local production volumes flow to Brainard, Orwell, transportation customers and Dominion East Ohio.

Supply Agreements

Interstate Supply Agreements

On January 4, 2010, NEO, Orwell and Brainard entered into a 13 year, 10 month Appointment of Natural Gas Agent agreement with JDOG. Under this agreement, JDOG would act as buyer for the purpose of arranging the sale and transportation of natural gas in interstate commerce. For its services JDOG charged the companies $.15 for each Dth of gas purchased. In February 2011, the JDOG contract was superseded. At the same time GNS was designated to purchase interstate supplies from JDOG. GNS was to purchase interstate supplies using the North American Energy Standards Board Wholesale Gas (NAESB) contract. The NAESB contract recognized successor contracts (base contracts and addendums) that were to preserve the price terms and rights of last refusal contained in the superseded 2010 JDOG contract. Documents provided to Staff show that

the pricing and terms of the 2008 JDOG contract were terminated in August 2012. However, Brainard still paid what appeared to be agency and broker fees through November 2012. The payments of the JDOG agency and broker fees were likely from base rate revenue, thus reducing the funds that Brainard had available to pay non-related party invoices.

Local Production Supply Agreements

Effective July 1, 2008, NEO, Orwell and Brainard entered into a 15 year, 3 month "best efforts" Gas Sales Agreement with John D. Oil and Gas Marketing Co., LLC (JDOG). In February 2011, following the filing of Staff's 2010 audit reports, the JDOG contract was superseded. At the same time Gas Natural Service Company, LLC (GNS) was formed to purchase intrastate supplies from JDOG. GNS was to purchase intrastate supplies using the North American Energy Standards Board Wholesale Gas (NAESB) contract. The NAESB contract recognized successor contracts (base contracts and addendums) that were to preserve the price, term and rights of last refusal contained in the superseded 2008 JDOG contract.

The contractual changes that occurred in February 2011 through the series of superseded and successor contracts changed who JDOG sold gas to. Under these new contracts, JDOG no longer sold gas to NEO, Orwell or Brainard. In their place GNS was formed. JDOG would now sell gas to GNS, and GNS would sell gas to the companies at cost. GNS would also ensure that the companies were properly billed under the terms of their contracts with JDOG. However, the underlying intrastate pricing that Staff argued against in the last audit was still billed, except now the bills went through GNS before being submitted to the companies. Even though the insertion of GNS into the gas purchasing process resulted in no additional costs, it provided the companies with limited benefits. GNS was limited to verifying that the contract was being followed but the pricing terms for intrastate purchases were ambiguous. The pricing provisions between Brainard and JDOG were as follows:

The price to be paid by BGC to Seller for the natural gas delivered to BGC at the Delivery Points during the Term shall be the greater of (a) NYMEX plus seventy five cents ($. 75) per Thousand Cubic feet (Mcf) plus any applicable transportation costs, shrinkage costs and taxes or (b)market price, plus any applicable transportation costs, shrinkage and taxes.

The first pricing provision (a) provides the buyer with an index plus an adder/premium from which applicable transportation cost, shrink and taxes could be calculated to arrive at a rate per Mcf that one could verify. The second pricing provision (b) starts with market price, which in Staff's opinion is undefined and unverifiable. This pricing provision could be interpreted to mean "market price" as any price that is agreed to by a buyer and seller. This ignores the responsibility of JDOG to seek out lower cost options on behalf of the companies or as in the case of an index, taking the average cost of many buyers and sellers in the market.

Purchase Volumes

Staff has reviewed the purchase volumes filed by the Company in its GCR filings and found that for the audit period, Brainard reflected purchase volumes of 55,943 Mcf but increased its imbalance on Cobra by 3,735 Dth. This reduced purchase volumes into the Brainard system to 52,297 Mcf.

Sales Volumes

Staff reviewed Brainard's meter reading and billing register summaries for the months during the audit period to ensure the sales volumes were properly calculated and summed each month for inclusion in the company's GCR. Staff learned through audit interviews and documentation provided that free gas was calculated into the company's monthly sales volumes and GCR. Staff discovered that one company in Brainard's territory receives 250 Mcf of free gas each year. Staff found that Brainard properly accounted for free gas in its calculation of sales volumes. Sales volumes for the audit period were 55,811. The purchase volumes were less than sales volumes for the audit period by 3,514 or negative 6.7%.

Transportation Services

Brainard provided transportation service to 22 customers under its tariffed transportation service during the audit period. These 22 customers represent the vast majority (91%) of the company's through-put volumes. Staff requested copies of the Company's largest transportation customers' contracts and found that these contracts deviated from their tariffed transportation offerings.
For this audit, Staff was provided with meter reading summaries for sales and transportation customers. From these summaries, it appears that the Company began to read its transportation customers meters using visual inspection on April 1, 2012. The reading of the meter on the first day of the month coincides with Cobra Pipeline's (Cobra) reading of its Bridge Road meter. After the April 1st date, the Company's visual reads varied between 8:00 am and 1:30 pm. Cobra electronically reads it Bridge Road meter at 10:00 am on the 1st of the month, every month. The timing difference between Cobra's 10:00 am electronic meter read and the Company's visual read of its largest transportation customers has been reduced from days down to hours, but still allows for variances to exist.

In the last Staff Audit Report, Staff recommended that Brainard time the meter reading of its largest transportation customers to coincide with the reading of the Bridge Road meter on Cobra's system. Staff found all of the imbalances were billed to the sales customers and could have been detected and resolved prior to their placement for recovery in its GCR.

As mentioned above, the matter of imbalances was not fully resolved and Staff issued a data request asking for the calculation of its transportation customers' imbalances per its tariffs for the period of January 2011 through December 2012. The Company response was that it does not maintain this information. This implies that Brainard assumes all of the imbalances on Cobra are attributable to its sales customers and ignores, the differences that exist each month between the transporters delivered volumes and the volumes they flowed through their meters.

Conclusions

Supply Sources

Orwell and Brainard have three of the same supply options, those being Cobra, OTPC and local production. To the extent possible, Brainard can alter its supply mix to maximize the procurement of least cost supplies.

Supply Agreements

In early 2011, NEO, Orwell, Brainard, and JDOG formed GNS. Along with the formation of GNS, the intrastate and interstate supply agreements between the companies and JDOG were superseded and replaced with NAESB base contracts and addendums. With these contracts GNS was to purchase intrastate supplies from JDOG and resell the same to the companies and provide transportation, sales and services to the companies in order to more effectively and efficiently manage such services. GNS was formed to address the numerous contractual issues that were identified in Staff's 2010 Orwell report and to put forth an image that positive changes were occurring. The formation of GNS and all of the contractual changes were signed on February 23, 2011. With the newly formed GNS, superseded supply agreements, base contracts and addendums, the Companies and JDOG made the changes to formalize their transaction. However, embedded in these 2011 agreements, in their addendums were the 2008 JDOG provisions for local production pricing, terms through 2023, and the 2010 agency fee contract. These JDOG provisions were contested in the 2010 and 2011 cases by Staff in its reports, hearings, and post hearing settlement discussion. As the result of settlement discussions in the 2010 cases, a stipulation was created and signed by the companies, Staff and OCC, and approved by the Commission in October 2011 and adopted by Company witness Tom Smith in the 2011 hearing. The stipulation was to terminate effective contracts for purchases of local production and the fees agreement for the purchasing of natural gas in the interstate market. JDOG pricing as stated in the 2008 agreement was NYMEX plus $.75 and the cost to transport, or market price plus the cost to transport. The NYMEX plus price would have been easy to identify, but Staff did not find this pricing provision in the documentation. Staff found what it believes to be the market price, simply because there is no other pricing provision for local production. However, Staff was unable to define or quantify in any form the market price that Brainard had been billed by JDOG.

Staff has completed its 2013 GCR audit of Brainard and finds as it did in the 2011 audit, that is, he unsolicited insertion of JDOG was not done to benefit Brainard and actually served as a detriment to its customers. The insertion of JDOG in early 2008 was initially made to benefit JDOG and Great Plains, both companies under the ownership of Richard M. Osborne.

Staff believes the key point here is whether Brainard and its management fulfilled their duties to their customers. The Company was not engaged in the review of the costs it was billed. Management must also become more knowledgeable about local and interstate supply alternatives, and their employees should be provided with the training and support to investigate questions that they have, including contacting the Commission Staff to receive its input. Brainard's approach was to pay the invoices submitted by GNS with little inquiry

Purchase Volumes

Brainard consistently showed year after year that the gas entering its system is almost the same as the gas leaving its system. Staff believes that purchase volumes should be equal to or slightly (0.25%) less than the sales volumes. Due to differences between the meter reading of Brainard's large transportation customers and the reading of the purchase meter (Bridge Road meter) as noted in the prior audit, it is difficult to determine if there was a difference between purchase and sales volumes.

Sales Volumes

The sales volumes used to calculate the Company's actual adjustment (AA) were properly calculated and included in its filings.

Transportation Services

Staff found Brainard's contractual agreements with its largest transportation customers deviated from their tariffs. Any deviation of the terms from the Company's approved tariffs should have been filed with the Commission.

Brainard's failure to maintain transportation customers' imbalances placed all of the imbalances upon the Company's sales customers. This practice is not in compliance with its transportation tariffs.

The Company's visual meter reading of its largest transportation customer could be done closer to the 10:00 am time, thus eliminating nearly all of the meter reading variances.

Recommendations

Supply Sources

Staff recommends Brainard examine, on a monthly basis, its least cost options for meeting its sales customers' requirements through its different supply sources. Staff believes that the solicitation of bids from the market and futures pricing will allow Brainard to alter its supply mix within the physical constraints of its system to accommodate less expensive gas supplies on a month-to-month basis.

Supply Agreements

Staff recommends that the Commission directives in its 2012 O&O as ordered for the procurement of gas supplies (interstate and intrastate) be adopted by Brainard.

As stated in the 2012 O&O, "we ordered in the 2010 GCR Audit Cases, all contracts with JDOG shall be voided and the Companies will commence all local and interstate gas purchases using in-house personnel.

Transportation Services

Staff recommends that Brainard file all transportation agreements with the Commission that deviate from its tariff. Staff found Brainard has transportation agreements with customers that contain provisions that are not included in its tariffs. Staff believes that Brainard should provide services that are consistent with its tariffs or file an application with the Commission for approval of its special contracts.

Staff also recommends that Brainard maintain imbalance accounts as required by its tariffs. Staff requested the transportation customer imbalances and was informed that this information was not retained.

Again, as in 2009 and 2011, Staff recommends that Brainard sequence the reading of its meters to ensure that its largest transportation customers served behind the Bridge Road Meter are read as close as possible to the time Cobra reads its Bridge Road mete

Section IV

Actual Adjustment

The Actual Adjustment (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. That 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 of under or over-recoveries of gas costs. The monthly under or over-recoveries are summed and divided by the twelve-month historic jurisdictional sales to develop an Actual Adjustment rate to be included in the GCR for four quarters.

Errors in the Actual Adjustment calculation can result from incorrectly reported purchase gas costs, errors in the stated sales volumes and from the use of the wrong EGC rate.

Staff calculated the purchase gas costs using the contracts that were in place prior to the insertion of JDOG, thus eliminating the premiums charged by JDOG on local production purchases and agency fees on interstate supply purchases. Staff also reduced the Cobra monthly meter fee of $125 to reflect the transportation volumes that pass through the Bridge Road meter.

Conclusion

Staff has calculated purchase gas costs for Brainard based on the invoices billed to Orwell and Northeast and contracts that exclude JDOG fees and premiums. This treatment is consistent with the exclusion of JDOG fees and premiums as ordered in the NEO and Orwell 2012 cases.

Recommendations

The differences between the Staff and Company calculations in the AA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment of ($7,988) in the customers' favor as shown in Table I. This reconciliation adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

Table I
Brainard Natural Gas Company
Actual Adjustment

	Per Staff	Jan-11	Feb-11	Mar-11	AA	Difference
Quarter	Supply Cost $	$31,119	$30,227	$26,505		
End:	Jur. Sales MCF	5,900	5,313	4,708		
Mar-11	Total Sales MCF	5,900	5,313	4,708		
	Book Cost $/ MCF	$5.2744	$5.6893	$5.6298		
	EGC$/MCF	$5.5741	$5.9421	$6.0151		
	Diff. $/MCF	($0.2997)	($0.2528)	($0.3853)		
	Cost Diff. $	($1,768)	($1,343)	($1,814)	($4,925)	
	Per Company					
	Supply Cost $	$33,276	$32,394	$28,520		
	Jur. Sales MCF	5,900	5,313	4,708		
	Total Sales MCF	5,900	5,313	4,708		
	Book Cost $/ MCF	$5.6404	$6.0968	$6.0580		
	EGC$/MCF	$5.5741	$5.9421	$6.0151		
	Diff. $/MCF	$0.0663	$0.1547	$0.0429		
	Cost Diff. $	$391	$822	$202	$1,415	($6,340)

	Per Staff	Apr-11	May-11	Jun-11	AA	Difference
Quarter	Supply Cost $	$13,572	$1,028	$5,899		
End:	Jur. Sales MCF	3,095	1,720	1,024		
Jun-11	Total Sales MCF	3,095	1,720	1,024		
	Book Cost $/ MCF	$4.3850	$0.5976	$5.7609		
	EGC$/MCF	$5.8173	$5.7613	$6.1167		
	Diff. $/MCF	($1.4323)	($5.1637)	($0.3558)		
	Cost Diff. $	($4,433)	($8,882)	($364)	($13,679)	
	Per Company					
	Supply Cost $	$14,544	$1,363	$6,097		
	Jur. Sales MCF	3,095	1,720	1,024		
	Total Sales MCF	3,095	1,720	1,024		
	Book Cost $/ MCF	$4.6993	$0.7924	$5.9539		
	EGC$/MCF	$5.8173	$5.7613	$6.1167		
	Diff. $/MCF	($1.1180)	($4.9689)	($0.1628)		
	Cost Diff. $	($3,460)	($8,547)	($167)	($12,174)	($1,505)

Table I
Brainard Natural Gas Company
Actual Adjustment

	Per Staff	Jul-11	Aug-11	Sep-11	AA	Difference
Quarter	Supply Cost $	$1,249	$700	$276		
End:	Jur. Sales MCF	872	1,004	906		
Sep-11	Total Sales MCF	872	1,004	906		
	Book Cost $/ MCF	$1.4319	$0.6975	$0.3047		
	EGC$/MCF	$6.0883	$6.4464	$6.3740		
	Diff. $/MCF	($4.6564)	($5.7489)	($6.0693)		
	Cost Diff. $	($4,060)	($5,772)	($5,499)	($15,331)	
	Per Company					
	Supply Cost $	$1,362	$820	$398		
	Jur. Sales MCF	872	1,004	906		
	Total Sales MCF	872	1,004	906		
	Book Cost $/ MCF	$1.5619	$0.8173	$0.4387		
	EGC$/MCF	$6.0883	$6.4464	$6.3739		
	Diff. $/MCF	($4.5264)	($5.6291)	$5.9352		
	Cost Diff. $	($3,946)	($5,650)	($5,377)	($14,973)	($358)

	Per Staff	Oct-11	Nov-11	Dec-11	AA	Difference
Quarter	Supply Cost $	$5,516	$13,243	$33,113		
End:	Jur. Sales MCF	1,716	2,352	3,948		
Dec-11	Total Sales MCF	1,716	2,352	3,948		
	Book Cost $/ MCF	$3.2143	$5.6304	$8.3874		
	EGC$/MCF	$5.0803	$4.6251	$3.9241		
	Diff. $/MCF	($1.8660)	$1.0053	$4.4633		
	Cost Diff. $	($3,202)	$2,364	$17,621	$16,784	
	Per Company					
	Supply Cost $	$5,622	$13,352	$33,347		
	Jur. Sales MCF	1,716	2,352	3,948		
	Total Sales MCF	1,716	2,352	3,948		
	Book Cost $/ MCF	$3.2753	$5.6769	$8.4460		
	EGC$/MCF	$5.0501	$4.6251	$3.9241		
	Diff. $/MCF	$1.7748	$1.0518	$4.5219		
	Cost Diff. $	($3,046)	$2,474	$17,853	$17,281	($497)

Table I
Brainard Natural Gas Company
Actual Adjustment

	Per Staff	Jan-12	Feb-12	Mar-12	AA	Difference
Quarter	Supply Cost $	$21,623	$14,575	$9,611		
End:	Jur. Sales MCF	5,010	4,121	59		
Mar-12	Total Sales MCF	5,010	4,121	59		
	Book Cost $/ MCF	$4.3160	$3.5366	$162.8927		
	EGC$/MCF	$3.4744	$2.9590	$2.9590		
	Diff. $/MCF	$0.8416	$0.5776	$159.9337		
	Cost Diff. $	$4,216	$2,380	$9,436	$16,033	
	Per Company					
	Supply Cost $	$22,104	$14,839	$9,750		
	Jur. Sales MCF	5,010	4,121	59		
	Total Sales MCF	5,010	4,121	59		
	Book Cost $/ MCF	$4.4118	$3.6008	$165.8095		
	EGC$/MCF	$3.4744	$2.9590	$3.2691		
	Diff. $/MCF	$0.9374	$0.6418	$162.5400		
	Cost Diff. $	$4,696	$2,645	$9,557	$16,898	($865)

	Per Staff	Apr-12	May-12	Jun-12	AA	Difference
Quarter	Supply Cost $	$8,712	$1,713	$2,326		
End:	Jur. Sales MCF	2,495	2,181	1,110		
Jun-12	Total Sales MCF	2,495	2,181	1,110		
	Book Cost $/ MCF	$3.4917	$0.7856	$2.0957		
	EGC$/MCF	$3.3469	$3.4296	$3.8621		
	Diff. $/MCF	$0.1448	($2.6440)	($1.7664)		
	Cost Diff. $	$361	($5,767)	($1,961)	($7,366)	
	Per Company					
	Supply Cost $	$8,822	$1,825	$2,263		
	Jur. Sales MCF	2,495	2,181	1,110		
	Total Sales MCF	2,495	2,181	1,110		
	Book Cost $/ MCF	$3.5359	$0.8367	$2.0386		
	EGC$/MCF	$3.3469	$3.4296	$3.8621		
	Diff. $/MCF	$0.1890	($2.5929)	($1.8235)		
	Cost Diff. $	$472	($5,654)	($2,024)	($7,206)	($160)

Table I
Brainard Natural Gas Company
Actual Adjustment

Brainard Gas Corporation
Case No. 13-206-GA-GCR

	Per Staff	Jul-12	Aug-12	Sep-12	AA	Difference
Quarter	Supply Cost $	$1,770	$409	$1,111		
End:	Jur. Sales MCF	860	852	818		
Sep-12	Total Sales MCF	860	852	818		
	Book Cost $/ MCF	$2.0583	$0.4795	$1.3576		
	EGC$/MCF	$4.1730	$4.4522	$3.9794		
	Diff. $/MCF	($2.1147)	($3.9727)	($2.6218)		
	Cost Diff. $	($1,819)	($3,385)	($2,145)	($7,348)	
	Per Company					
	Supply Cost $	$1,890	$529	$1,234		
	Jur. Sales MCF	860	852	818		
	Total Sales MCF	860	852	818		
	Book Cost $/ MCF	$2.1982	$0.6204	$1.5073		
	EGC$/MCF	$4.1730	$4.4522	$3.9794		
	Diff. $/MCF	($1.9748)	($3.8318)	($2.4721)		
	Cost Diff. $	($1,698)	($3,265)	($2,023)	($6,986)	($362)

	Per Staff	Oct-12	Nov-12	Dec-12	AA	Difference
Quarter	Supply Cost $	$5,822	$9,750	$19,555		
End:	Jur. Sales MCF	910	1,689	3,148		
Dec-12	Total Sales MCF	910	1,689	3,148		
	Book Cost $/ MCF	$6.3980	$5.7728	$6.2120		
	EGC$/MCF	$1.2064	$4.4708	$4.9303		
	Diff. $/MCF	$5.1916	$1.3020	$1.2817		
	Cost Diff. $	$4,724	$2,199	$4,035	$10,958	
	Per Company					
	Supply Cost $	$5,941	$9,963	$20,037		
	Jur. Sales MCF	910	1,689	3,148		
	Total Sales MCF	910	1,689	3,148		
	Book Cost $/ MCF	$6.5288	$5.9000	$6.3645		
	EGC$/MCF	$4.4078	$4.4708	$4.9303		
	Diff. $/MCF	$2.1210	$1.4292	$1.4342		
	Cost Diff. $	$1,930	$2,413	$4,515	$8,858	$2,100

($7,987.75)

Section V

Refund and Reconciliation Adjustment

The Refund and Reconciliation Adjustment (RA) is used to pass through the jurisdictional portion of refunds received from gas suppliers and adjustments ordered by the Commission. Annual interest of ten percent (10 %) is applied to the net jurisdictional amount of the RA, which is then divided by twelve months of historic sales volumes to develop a unit rate to be included in the GCR calculation for four quarters.

The Staff has reviewed the RA calculated by the Company and found that Brainard initiated the refunding of the reconciliation adjustment ordered by the Commission in Case No. 11-206-GA-GCR of ($103,871) in its November 2012 filing. The Company will complete refunding of the adjustment in October 2013.

Recommendations

Staff recommends that in the next audit it examine the Commission ordered reconciliation to ensure it was refunded for 12 consecutive months.

Section VI

Balance Adjustment

The Balance Adjustment (BA) mechanism corrects for under- or over- recoveries of previously calculated AA's and RA's. The BA is calculated by subtracting the product of the respective AA, and RA rate and the sales to which those rates were applied from the dollar amounts of the respective AA and RA previously included in the GCR and used to generate those adjustment rates. Since those adjustment rates themselves 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 for the quarter, which is then combined with the quarterly AA adjustment and divided by twelve-months of historical sales to obtain a new AA rate to be included in the GCR. Errors detected in the BA generally are the result of incorrectly reported sales volumes, but also may be due to selecting an incorrect rate from previous AA and RA calculations.

Staff found in its review of the Company's BA calculations two minor differences. The first occurred for the BA calculation ending March 2011. In this calculation, the free gas errors noted in the prior audit, carried over into this audit, inflating the 12 months sale volumes used by the Company. Staff in its calculation omitted free gas from its sales volumes. The second difference occurred in the BA calculation ending June 2012. In its BA calculation, the Company failed to incorporate how its AA rate of $0.0891 per Mcf changed in months two and three to $0.0951 and $0.0917per Mcf, respectively. The $0.0917 per Mcf rate remained in effective for months three through twelve. Staff has made the necessary corrections in it BA calculation to account for various rates that were collected by the Company.

Recommendations

The differences between the Staff and Company's calculations of the BA are not self-correcting through the GCR mechanism. Staff recommends a net reconciliation adjustment of $(363) in the customers' favor as shown in Table II. This reconciliation adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

Table II
Brainard Natural Gas Company
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	($5,505)	$0	$0		
End:	Rate $/MCF	($0.2112)	$0.0000	$0.0000		
Mar-11	Sales MCF	32,115	32,115	32,115		
	Recovery $	($6,783)	$0	$0		
	Balance $	$1,278	$0	$0	$1,278	
	Per Company					
	Adjustment $	($5,505)	$0	$0		
	Rate $/MCF	($0.2112)	$0.0000	$0.0000		
	Sales MCF	33,507	0	0		
	Recovery $	($7,077)	$0	$0		
	Balance $	$1,572	$0	$0	$1,572	($294)

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	($17,673)	$0	$0		
End:	Rate $/MCF	($0.5935)	$0.0000	$0.0000		
Jun-11	Sales MCF	34,215	34,215	34,215		
	Recovery $	($20,307)	$0	$0		
	Balance $	$2,634	$0	$0	$2,634	
	Per Company					
	Adjustment $	($17,673)	$0	$0		
	Rate $/MCF	($0.5935)	$0.0000	$0.0000		
	Sales MCF	34,216	0	0		
	Recovery $	($20,307)	$0	$0		
	Balance $	$2,634	$0	$0	$2,634	($0)

Table II
Brainard Natural Gas Company
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	($1,801)	$0	$0		
End:	Rate $/MCF	($0.0617)	$0.0000	$0.0000		
Sep-11	Sales MCF	34,239	34,239	34,239		
	Recovery $	($2,113)	$0	$0		
	Balance $	$312	$0	$0	$312	
	Per Company					
	Adjustment $	($1,801)	$0	$0		
	Rate $/MCF	($0.0617)	$0.0000	$0.0000		
	Sales MCF	34,238	0	0		
	Recovery $	($2,113)	$0	$0		
	Balance $	$312	$0	$0	$312	($0)

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	$33,178	$0	$0		
End:	Rate $/MCF	$1.1321	$0.0000	$0.0000		
Dec-11	Sales MCF	32,558	32,558	32,558		
	Recovery $	$36,859	$0	$0		
	Balance $	($3,681)	$0	$0	($3,681)	
	Per Company					
	Adjustment $	$33,178	$0	$0		
	Rate $/MCF	$1.1321	$0.0000	$0.0000		
	Sales MCF	32,558	0	0		
	Recovery $	$36,859	$0	$0		
	Balance $	($3,681)	$0	$0	($3,681)	$0

Table II
Brainard Natural Gas Company
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	$20,793	$0	$0		
End:	Rate $/MCF	$0.6796	$0.0000	$0.0000		
Mar-12	Sales MCF	25,827	25,827	25,827		
	Recovery $	$17,552	$0	$0		
	Balance $	$3,241	$0	$0	$3,241	
	Per Company					
	Adjustment $	$20,792	$0	$0		
	Rate $/MCF	$0.6796	$0.0000	$0.0000		
	Sales MCF	25,827	0	0		
	Recovery $	$17,552	$0	$0		
	Balance $	$3,240	$0	$0	$3,240	$1

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	$2,987	$0	$0		
End:	Rate $/MCF	$0.0891	$0.0000	$0.0000		
Jun-12	Sales MCF	25,774	0	0		
	Recovery $	$2,365	$0	$0		
	Balance $	$622	$0	$0	$622	
	Per Company					
	Adjustment $	$2,987	$0	$0		
	Rate $/MCF	$0.0891	$0.0000	$0.0000		
	Sales MCF	25,774	0	0		
	Recovery $	$2,296	$0	$0		
	Balance $	$691	$0	$0	$691	($69)

Table II
Brainard Natural Gas Company
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	($9,540)	$0	$0		
End:	Rate $/MCF	($0.2788)	$0.0000	$0.0000		
Sep-12	Sales MCF	25,522	25,522	25,522		
	Recovery $	($7,116)	$0	$0		
	Balance $	($2,424)	$0	$0	($2,424)	
	Per Company					
	Adjustment $	($9,540)	$0	$0		
	Rate $/MCF	($0.2788)	$0.0000	$0.0000		
	Sales MCF	25,523	0	0		
	Recovery $	($7,116)	$0	$0		
	Balance $	($2,424)	$0	$0	($2,424)	($0)

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	($14,661)	$0	$0		
End:	Rate $/MCF	($0.4282)	$0.0000	$0.0000		
Dec-12	Sales MCF	23,253	23,253	23,253		
	Recovery $	($9,957)	$0	$0		
	Balance $	($4,704)	$0	$0	($4,704)	
	Per Company					
	Adjustment $	($14,661)	$0	$0		
	Rate $/MCF	($0.4282)	$0.0000	$0.0000		
	Sales MCF	23,253	0	0		
	Recovery $	($9,957)	$0	$0		
	Balance $	($4,704)	$0	$0	($4,704)	($0)

($363)

Section VII

Unaccounted-For Gas

Unaccounted-for gas (UFG) is the difference between gas purchase volumes and sale volumes. It is calculated on a twelve-month basis, ending in one of the low usage summer months, so as to minimize the effects of unbilled volumes on the calculation. Chapter 4901:1-14-08(F)(3), Ohio Administrative Code, specifies that the Commission may adjust the Company's future GCR rates as a result of UFG above a reasonable level, presumed to be no more than 5% for the audit period.

Staff's UFG analysis examined the volumes delivered by Cobra through its Bridge Road Meter converted to MCF and the volumes billed by OTP. The volumes delivered by Cobra represented nearly 99% of the volumes received by Brainard. The volumes delivered by Cobra and OTP were compared to the sales volumes and transportation volumes behind the Cobra Bridge Road Meter.

Staff examined the deliveries from Cobra and OTP to the sales and transportation volumes for the two year audit period and found that the UFG level was a very slight negative rate of .41% or nearly zero. The results of Staff's analysis are shown below.

Deliveries (Mcf)	Metered Volumes (Mcf)	Difference	UFG%
560,096	562,338	(2,242)	(0.40%)

Conclusion

Staff finds that Brainard has a slight negative UFG level which is consistent with prior audits.

Recommendation

Staff has no recommendations for this section.

Section VIII

Customer Billing

An important component in the GCR process is the proper application of GCR rates to customer bills. Staff randomly selected invoices for each month during the audit period to verify GCR and base rates, along with the customer charges applied to each account. The audit sampling validated Brainard's application of these rates to customer billing. Slight differences (plus or minus one cent) due to rounding procedures were noted in the billing verification.

Conclusion

Brainard made no customer billing errors based on the sampling for the audit period.

Recommendation

Staff has no recommendations for this section.