BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Investigative Audit of Brainard Gas Corporation, Northeast Ohio Natural Gas Corporation, and Orwell Natural Gas Company.	: : : : : :	Case No. 14-0205-GA-COI

PREPARED TESTIMONY
OF
Patrick Donlon
RATES AND ANALYSIS DEPARTMENT

STAFF EX.____

1. Q. Please state your name and business address.

A. My name is Patrick Donlon and my business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. By whom and in what capacity are you employed?

A. I am employed by the Public Utilities Commission of Ohio (PUCO) as the Director of the Rates and Analysis Department.

3. Q. How long have you been in your present position?

A. I assumed my present position in November of 2014.

4. Q. What are your responsibilities in your current position?

A. In my current position, I am responsible for managing the Rates and Analysis Department of the PUCO.

5. Q. Will you describe briefly your educational and business background?

A. I received a Bachelor of Science degree in Accounting with a minor in Economics Management from Ohio Wesleyan University in 2000. In 2010, I earned a Master of Business Administration degree from Franklin University. I worked for American Electric Power (AEP) for just under

ten years in two stints with the company serving in various roles. For AEP, I was an accountant in the Generation Accounting Department; an Hourly Energy Trader focusing in the Southwestern Power Pool market; a Fuel, Emissions and Logistics Coordinator; and a financial planning analyst in Commercial Operations. I started with the PUCO in August 2012 as Public Utilities Administrator 2 of the Rates Division of the Utilities Department, and served as the Interim Director of the Energy and Environmental Department in May of 2014, until assuming my current role.

6. Q. Have you provided testimony before the Public Utility Commission of Ohio?

A. Yes, I provided testimony in various electric Standard Service Offer (SSO) and rider cases, gas and electric rate cases, and Gas Cost Recovery (GCR) cases.

7. Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to support the Stipulation and Recommendation (Stipulation) between Brainard Gas Corporation, Northeast Ohio Natural Gas Corporation, and Orwell Natural Gas Company (collectively, the Companies) and the PUCO staff (Staff) in case number 14-0205-GA-COI. My testimony will confirm that the Stipulation complies with the PUCO's three-part test for evaluating a settlement agreement.

8. Q. What are the components of the PUCO's three-part test?

A. A stipulation before the PUCO must: (i) be the product of serious bargaining among capable, knowledgeable parties; (ii) not violate any important regulatory principle or practice; and (iii) as a package, benefit ratepayers and the public interest.

9. Q. Please identify the signatory parties to the Stipulation.

A. The Stipulation has been signed by Staff and the Companies and was filed with the PUCO on October 30, 2015.

10. Q. Please summarize the terms of the Stipulation.

A. The Stipulation addresses the issues raised by the management performance audit conducted by Rehmann Corporate Investigative Services, LLC (Rehmann), including:

1. The Companies will maintain documentation and work papers in a consistent manner for future GCR audits and have implemented a policy prohibiting employees from performing certain manual adjustments to the GCR spreadsheet. Within six months of the final order adopting the Stipulation, the Companies will formalize these practices and procedures in a written policy.

2. The Companies will develop by January 1, 2016 a secure database to store historical sales figures and gas supply records.

3. The Companies will maintain and provide the Office of the Ohio Consumers' Counsel (OCC) and Staff the policy that addresses free gas and a list of customers that receive free gas in future GCR audits.

4. The Companies have developed and implemented a policy requiring a three step process for approving and paying invoices.

5. The Companies will develop a written policy to ensure that the GCR calculation properly reflects all Commission-ordered adjustments within six months of the final order in this proceeding.

6. All gas purchases which are allocated among the Companies shall be supported and documented to ensure that customers are charged for the gas they receive. The Companies shall retain all such documentation for a minimum of two GCR auditing cycles.

7. The Companies have implemented a written gas purchase procurement policy.

8. The Companies will document the reconciliation between the general ledger and the GCR in writing, and will ensure that these reconciliations are verified and signed-off by the executive management team and retained for a minimum of two GCR auditing cycles.

9. The Companies have developed policies and procedures to ensure separation between the regulated and non-regulated functions.

10. The Companies have implemented a written policy for the use of the Companies and individual email related to the Companies' business.

11. Orwell Natural Gas Company will evaluate the $66,991 shrinkage cost charged to Orwell-Trumbull Pipeline Co., LLC. Orwell Natural Gas Company will seek reimbursement in a timely manner from Orwell-Trumbull Pipeline Co., LLC if this charge was inconsistent with the terms of the parties' contract.

12. The Companies shall no longer allow Gas Natural Service Company to procure services for the Companies.

13. The Companies shall establish written job descriptions for various positions within the Companies within six months of a final order in this proceeding and the Companies shall

properly track employee's time for working among the various Companies.

14. Gas Natural Inc. (GNI), updated the Code of Business Conduct on September 9, 2015 and all employees of GNI and its subsidiaries, including the Companies, are required to sign the Code of Business Conduct. The Companies are in the process of implementing an online training program for employees that addresses conflicts of interest and affiliated/related party transactions.

15. The Companies, through the Code of Business Conduct, updated their whistleblower policy and framework.

16. The Companies agree that the only individuals allowed to use a company vehicle are the employees of the Companies.

17. The Companies have developed policies and procedures for affiliated and related company transactions.

18. The Companies are in the process of developing a policy regarding access to the utilities' records and personnel access to networks and key confidential documents as well as installing SAP software to appropriately manage business operations and customer relations. The Companies will provide Staff and OCC an update regarding this process

within six months of the issuance of a final Order adopting this Stipulation.

19. GNI has reached a level of growth that requires that a third party auditor verifies that the company and thus Companies are in compliance with Sarbanes-Oxley.

20. GNI has adopted and developed an Intercompany Agreement that governs the pricing and payment terms of intercompany service and sales transactions.

21. GNI is in the process of establishing an in-house internal audit department, which reports to the GNI Board of Directors and will conduct annual internal audits on the Companies.

22. Consistent with the Stipulation adopted by the Commission in Case Nos. 14-206-GA-GCR, 14-209-GA-GCR, and 14-212-GA-GCR, the signatory parties recommend that an independent auditor is selected to perform a Management Performance (M/P) Audit. Customers and the Companies will share the cost of the audit that will not exceed $100,000. Customers have already paid for their share of the audit and if the audit is less than $100,000 the Companies will credit the appropriate proportion back to customers. The M/P Audit(s)

will continue in coordination with the GCR audits until the Commission deems it unnecessary.

23. The Companies agree that all interstate and intrastate gas system operators' tariffs shall show the allowed retention/shrinkage percentage.

11. Q. Does the Stipulation represent the product of serious bargaining among capable, knowledgeable parties?

A. Yes. The signatory parties were parties to the prior stipulations on the Companies' gas cost recover cases in Case Nos. 14-206-GA-GCR, 14-209-GA-GCR, and 14-212-GA-GCR, are knowledgeable of regulatory matters before the PUCO, regularly participate in rate proceedings, employ experts in the industry and are represented by experienced and competent counsel.

The terms of the Stipulation represent serious bargaining between the parties to find a mutually acceptable resolution for all parties. Through the Stipulation, concessions were made by both parties to mitigate the litigation risk inherent in proceeding to a hearing.

12. Q. Does the Stipulation violate any important regulatory principle or practice?

A. No. Based on my experience, involvement in this proceeding and review of the Stipulation, I believe that it complies with all relevant and important principles and practices.

13. Q. Does the Stipulation benefit consumers and the public interest?

A. Yes. The Stipulation identifies, defines and sets policies and procedures to tighten the internal controls of the Companies according to the results Rehmann found in the course of its investigation. The goal of this Stipulation was to establish appropriate policy and procedures and that, on a going forward basis, Staff or a designated independent auditor will audit and verify that the Companies adhere to the policies and procedures through the course of the M/P Audit(s) that will be conducted in conjunction with the GCR audits.

14. Q. Do you believe the Stipulation meets the three-part test regarding consideration of stipulations and therefore should be adopted by the PUCO?

A. Yes.

15. Q. Does this conclude your testimony?

A. Yes.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prepared Testimony of Patrick Donlon**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by via electronic mail upon the following parties of record, this 3rd day of May, 2016.

/s/Werner L. Margard III
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Summary: Testimony of Patrick Donlon Submitted on Behalf of the Public Utilities Commission of Ohio. electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO