

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

**PREPARED TESTIMONY
OF
Patrick Donlon
RATES AND ANALYSIS DEPARTMENT**

STAFF EX. _____

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

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

4

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

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

8

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

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

11

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

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

15

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

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

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

29

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

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

35

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

37 A. The purpose of my testimony is to support the Stipulation and
38 Recommendation (Stipulation) between Brainard Gas Corporation,
39 Northeast Ohio Natural Gas Corporation, and Orwell Natural Gas Company
40 (collectively, the Companies) and the PUCO staff (Staff) in case number
41 14-0205-GA-COI. My testimony will confirm that the Stipulation complies
42 with the PUCO's three-part test for evaluating a settlement agreement.

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

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

48

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

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

52

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

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

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

- 64 2. The Companies will develop by January 1, 2016 a secure
65 database to store historical sales figures and gas supply
66 records.
- 67 3. The Companies will maintain and provide the Office of the
68 Ohio Consumers' Counsel (OCC) and Staff the policy that
69 addresses free gas and a list of customers that receive free gas
70 in future GCR audits.
- 71 4. The Companies have developed and implemented a policy
72 requiring a three step process for approving and paying
73 invoices.
- 74 5. The Companies will develop a written policy to ensure that
75 the GCR calculation properly reflects all Commission-
76 ordered adjustments within six months of the final order in
77 this proceeding.
- 78 6. All gas purchases which are allocated among the Companies
79 shall be supported and documented to ensure that customers
80 are charged for the gas they receive. The Companies shall
81 retain all such documentation for a minimum of two GCR
82 auditing cycles.
- 83 7. The Companies have implemented a written gas purchase
84 procurement policy.

- 85 8. The Companies will document the reconciliation between the
86 general ledger and the GCR in writing, and will ensure that
87 these reconciliations are verified and signed-off by the
88 executive management team and retained for a minimum of
89 two GCR auditing cycles.
- 90 9. The Companies have developed policies and procedures to
91 ensure separation between the regulated and non-regulated
92 functions.
- 93 10. The Companies have implemented a written policy for the use
94 of the Companies and individual email related to the
95 Companies' business.
- 96 11. Orwell Natural Gas Company will evaluate the \$66,991
97 shrinkage cost charged to Orwell-Trumbull Pipeline Co.,
98 LLC. Orwell Natural Gas Company will seek reimbursement
99 in a timely manner from Orwell-Trumbull Pipeline Co., LLC
100 if this charge was inconsistent with the terms of the parties'
101 contract.
- 102 12. The Companies shall no longer allow Gas Natural Service
103 Company to procure services for the Companies.
- 104 13. The Companies shall establish written job descriptions for
105 various positions within the Companies within six months of
106 a final order in this proceeding and the Companies shall

- 107 properly track employee's time for working among the
108 various Companies.
- 109 14. Gas Natural Inc. (GNI), updated the Code of Business
110 Conduct on September 9, 2015 and all employees of GNI and
111 its subsidiaries, including the Companies, are required to sign
112 the Code of Business Conduct. The Companies are in the
113 process of implementing an online training program for
114 employees that addresses conflicts of interest and
115 affiliated/related party transactions.
- 116 15. The Companies, through the Code of Business Conduct,
117 updated their whistleblower policy and framework.
- 118 16. The Companies agree that the only individuals allowed to use
119 a company vehicle are the employees of the Companies.
- 120 17. The Companies have developed policies and procedures for
121 affiliated and related company transactions.
- 122 18. The Companies are in the process of developing a policy
123 regarding access to the utilities' records and personnel access
124 to networks and key confidential documents as well as
125 installing SAP software to appropriately manage business
126 operations and customer relations. The Companies will
127 provide Staff and OCC an update regarding this process

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

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

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

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

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

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

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

154

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

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

162

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

167

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

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

172

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

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

182

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

186 A. Yes.

187

188 15. Q. Does this conclude your testimony?

189 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

Werner L. Margard III
Assistant Attorney General

Parties of Record:

Devin D. Parram
Taft Stettinius & Hollister LLP
65 East State Street, Suite 1000
Columbus, Ohio 43215-4213
dparram@taftlaw.com

Counsel for Northeast Ohio Natural Gas
Corporation and Orwell Natural Gas
Company

Ajay K. Kumar
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
Ajay.kumar@occ.state.oh.us

Counsel for the Office of the Ohio
Consumers' Counsel

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

5/3/2016 4:29:50 PM

in

Case No(s). 14-0205-GA-COI

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