THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE REGULATION OF THE PURCHASED GAS ADJUSTMENT CLAUSES CONTAINED WITHIN THE RATE SCHEDULES OF:	
EASTERN NATURAL GAS COMPANY PIKE NATURAL GAS COMPANY SOUTHEASTERN NATURAL GAS COMPANY AND RELATED MATTERS.	CASE NO. 15-207-GA-GCR CASE NO. 15-214-GA-GCR CASE NO. 15-215-GA-GCR
IN THE MATTER OF THE UNCOLLECTIBLE EXPENSE RIDERS OF:	
EASTERN NATURAL GAS COMPANY PIKE NATURAL GAS COMPANY AND RELATED MATTERS.	CASE NO. 15-307-GA-UEX CASE NO. 15-314-GA-UEX
IN THE MATTER OF THE PERCENTAGE OF INCOME PAYMENT PLAN RIDERS OF:	
EASTERN NATURAL GAS COMPANY PIKE NATURAL GAS COMPANY SOUTHEASTERN NATURAL GAS COMPANY AND RELATED MATTERS.	CASE NO. 15-407-GA-PIP CASE NO. 15-414-GA-PIP CASE NO. 15-415-GA-PIP

OPINION AND ORDER

Entered in the Journal on June 29, 2016

I. SUMMARY

{¶ 1} In this Opinion and Order, the Commission approves and adopts a Stipulation and Recommendation that resolves all issues relating to the gas cost recovery, uncollectible expense, and percentage of income payment plan audits of Eastern Natural Gas Company, Pike Natural Gas Company, and Southeastern Natural Gas Company.

II. PROCEDURAL BACKGROUND

{¶ 2} Eastern Natural Gas Company (Eastern), Pike Natural Gas Company (Pike), and Southeastern Natural Gas Company (Southeastern) (individually, the company or, collectively, the companies) are each a natural gas company as defined in R.C. 4905.03 and a public utility under R.C. 4905.02, and, as such, each is subject to the jurisdiction of this Commission. Each company is also a natural gas company within the meaning of R.C. 4905.302(C), pursuant to which this Commission promulgated rules for a uniform purchased gas adjustment clause to be included in the schedules of gas or natural gas companies subject to the Commission's jurisdiction. These rules, which are contained in Ohio Adm.Code Chapter 4901:1-14, separate the jurisdictional cost of gas from all other costs incurred by a gas or natural gas company and provide for each company's recovery of these costs.

{¶ 3} R.C. 4905.302 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 a company's gas cost recovery (GCR) rates; and to review each company's production and purchasing policies and their effect upon these rates. Pursuant to such authority, the Commission adopted Ohio Adm.Code 4901:1-14-07, which identifies how periodic financial audits of gas or natural gas companies shall be conducted. Ohio Adm.Code 4901:1-14-08(A) requires the Commission to hold a public hearing at least 60 days after the filing of each required audit report. Ohio Adm.Code 4901:1-14-08(C) specifies that notice of the hearing be published in one of three ways, at least 15 days, but not more than 30 days, prior to the date of the scheduled hearing.

{¶ 4} On February 19, 2015, the Commission initiated these proceedings, established the financial audit periods, established the date upon which the financial audit reports must be filed, and directed Staff to conduct the audits required under Ohio Adm.Code 4901:1-14-07. The Commission also scheduled a hearing for January 19, 2016, and directed the companies to publish notice.

{¶ 5} On November 5, 2015, Staff filed a motion requesting that the Commission extend the due date for filing Staff's audit reports to December 18, 2015. Staff explained that other obligations prevented it from completing the audit reports by the November 20, 2015 deadline. The companies did not oppose Staff's request. By Entry issued November 24, 2015, the attorney examiner granted Staff's motion. To accommodate the later filing of Staff's audit reports, the attorney examiner ordered that the January 19, 2016 hearing be rescheduled for February 24, 2016.

{¶ 6} On December 18, 2015, Staff filed its audit reports in the captioned cases for the designated audit periods. The audit reports include the financial audit report for the companies' GCR mechanism (GCR Staff Report), the audit reports for Eastern's and Pike's uncollectible expense (UEX) mechanism (Eastern UEX Staff Report and Pike UEX Staff Report, respectively), and the audit report for the companies' percentage of income payment plan (PIPP) rider rates (PIPP Staff Report).

{¶ 7} On February 24, 2016, the public hearing was conducted at the offices of the Commission. No public witnesses appeared to offer testimony. Staff and counsel for the companies stated that they had not reached an agreement resulting in a stipulation and recommendation. The parties requested that they be given additional time to negotiate an agreement.

{¶ 8} On April 22, 2016, the parties filed a Stipulation and Recommendation (Stipulation) that resolved all issues in these dockets (Jt. Ex. 1). On May 19, 2016, the attorney examiner issued an Entry scheduling a hearing for May 24, 2016. The hearing on the Stipulation was held, as scheduled, on May 24, 2016. At the hearing, the companies' proof of publication of notice of the hearing was admitted into the record (Co. Ex. 2).

III. Discussion

A. GCR Audit

{¶ 9} Prior to the Commission issuing a Finding and Order on December 12, 2012, in *In re Eastern Natural Gas, et al.*, Case No. 12-2792-GA-UNC (*Transfer Case*), the companies were wholly-owned subsidiaries of Clearfield Ohio Holding, Inc. (COHI). In the *Transfer*

Case, the Commission approved the transfer of common stock from COHI to Utility Pipeline Ltd. (UPL). The companies are now wholly-owned subsidiaries of UPL. UPL is a natural gas distribution management company that is headquartered in Canton, Ohio. In the GCR Staff Report, Staff noted that its report covers the audit period January 1, 2013, through December 31, 2014. (GCR Staff Report at 5.)

{¶ 10} Eastern provides utility sales service to approximately 6,615 residential and commercial customers. Eastern continues to provide transportation service to four industrial customers. The customer counts of sales customers, residential and commercial, has increased by 124 since the 2013 audit. The number of transportation customers has not changed. (GCR Staff Report at 5.)

{¶ 11} Eastern's service area consists of five non-contiguous regions located in the eastern portions of Ashtabula and Trumbull counties. Three of its regions were once part of National Fuel Gas Supply (National Fuel). Eastern still receives the majority of its system requirements through National Fuel. Approximately ten percent of its requirements come from Dominion East Ohio and less than one percent is from local production. (GCR Staff Report at 5.)

{¶ 12} Pike's system is separated into two service areas: Waverly and Hillsboro (Pike/Waverly and Pike/Hillsboro, respectively). Two different interstate pipelines serve each service area. Because the systems are not interconnected, Pike files separate GCR rates. Pike/Waverly serves approximately 3,490 residential, commercial, and industrial customers in Pike, Ross, and Jackson counties. Tennessee Gas Pipeline (Tennessee Gas) provides its gas supply. Pike/Hillsboro serves approximately 3,735 residential, commercial, and industrial customers in Highland and Clinton counties. It obtains its gas supply from Columbia Gas Transmission Corporation (TCO). Combined, Pike/Waverly and Pike/Hillsboro provide transportation service to six customers. (GCR Staff Report at 5.)

{¶ 13} Southeastern's service area is located primarily in the southeastern portion of Ohio. A few customers are in Delaware and Union counties. Southeastern serves the majority of its customers off the Southeastern pipeline, which is connected to TCO and Tennessee Gas. Customers in Delaware and Union counties are served under a transportation agreement with Columbia Gas of Ohio, Inc. (Columbia). Southeastern serves 1,418 residential customers and 115 commercial customers. Southeastern provides transportation service to 12 customers. (GCR Staff Report at 5.)

{¶ 14} In its financial review, Staff examined the periodic filings of the companies from January 1, 2013, through December 31, 2014. Except for those instances noted in the audit report, Staff found that the companies accurately calculated their GCR rates for the period stated above, in accordance with the uniform purchased gas adjustment clause, as set forth in Ohio Adm.Code Chapter 4901:1-14 and related appendices. (GCR Staff Report at 2.)

1. Expected Gas Cost (EGC)

{¶ 15} Staff reviewed the companies' calculation of their EGC and evaluated their supply sources, sales volumes, and purchase volumes. With regard to supply sources, Staff found that Atmos Energy Marketing (Atmos) purchased and nominated almost all of the companies' gas supplies, except for a small amount of local production for Eastern. Beginning November 2008, Atmos service agreements with the companies were amended from agency agreements to asset management agreements consistent with Federal Energy Regulatory Commission (FERC) Order 712. The terms of the asset management agreement required that the companies release their pipeline capacity (firm transportation and storage) to Atmos. As the asset manager, Atmos was responsible for purchasing supplies and nominating the gas to the companies' city gates. The companies paid Atmos the New York Mercantile Exchange monthly closing price plus price add-ons that recovered their respective pipeline capacity costs (fixed and volumetric), dekatherm (Dth) to thousand cubic feet (Mcf) conversion factors, and management fees. (GCR Staff Report at 6.)

{¶ 16} The companies contracted with Merrill Lynch to hedge portions of their winter supply requirements. The intent of the financial hedging was to reduce the volatility in commodity prices. During the January 2013 through December 2014 audit period, the companies included $126,612 of hedging costs in the GCR calculation for the four companies. Although the companies hedged only the winter months of November through March, the cost of the hedges was spread throughout the year to reduce the impact on customers' bills. Staff does not oppose financial hedging, but Staff has not been able to document the cost associated with locking in forward pricing. Because the companies did not produce documentation of the costs incurred, as requested by Staff, Staff included only documented costs. (GCR Staff Report at 6.)

{¶ 17} In the GCR Staff Report, Staff analyzed the sales volumes for each company. Staff discovered discrepancies in the monthly sales volume figures reported in the Eastern quarterly GCR filings. Staff found that seven months did not match the monthly sales volume figures contained in the company's customer billing register. The discrepancies have been accounted for in the actual adjustment and balance adjustment calculations. (GCR Staff Report at 7.)

{¶ 18} For Pike/Hillsboro, Staff verified the monthly sales volumes reported in Pike/Hillsboro's quarterly GCR filings and found several differences. The sales volumes contained in the customer billing register sales summaries show 731 Mcf fewer sales. Staff has accounted for the difference in its actual adjustment and balance adjustment calculations. (GCR Staff Report at 7.)

{¶ 19} For Pike/Waverly, Staff verified that the monthly sales volumes reported in the GCR filings matched the monthly sales volumes contained in the company's customer billing register. Staff discovered slight variances resulting in a cumulative difference of 1,028 Mcf of additional sales. Staff accounted for the discrepancy in its actual adjustment and balance adjustment calculations. (GCR Staff Report at 7.)

{¶ 20} Staff verified the monthly sales volume figures reported in Southeastern's quarterly GCR filings and found significant differences. The sales volumes contained in the company's customer billing register and Big Gas sales summary report show a decrease in sales of 9,437 Mcf. Staff has accounted for the variation in its actual adjustment and balance adjustment calculations. (GCR Staff Report at 7.)

{¶ 21} Staff reviewed the purchased volumes for each company. For Eastern, Staff discovered that purchased volumes from its supplier invoices did not match those filed in the company's periodic filings discussed in the actual adjustment section. Staff accounted for the difference in its calculation of purchased volumes. (GCR Staff Report at 7.)

{¶ 22} In its review of Pike/Hillsboro purchase volumes, Staff found that most supplier invoices did not match those filed in the company's periodic filings. Staff accounted for the difference in its calculation of purchased volumes. (GCR Staff Report at 8.)

{¶ 23} Staff reviewed the purchased volumes for Pike/Waverly by examining the invoices of both Atmos and a local producer. Staff also examined the volumes associated with Pike/Waverly transport customers. For nearly all of 2013, Pike/Waverly made purchases through Atmos for both jurisdictional sales customers and transport customers. To isolate jurisdictional purchase volumes, Staff removed the applicable transport customers. Staff discovered that the company failed to remove certain transport volumes. Staff recognized the difference in its calculation of jurisdictional purchased volumes. (GCR Staff Report at 8.)

{¶ 24} Staff's review of Southeastern's invoice listings of its purchased volumes received from suppliers disclosed that the volumes did not match those in the company's filings. Staff took the changes into account in its actual adjustment and balance adjustment calculations. (GCR Staff Report at 8.)

{¶ 25} As a result of its investigations, Staff made recommendations for each company. For Eastern, Southeastern, and Pike/Hillsboro, Staff recommended that each company double check its sales volumes prior to inclusion in its filings. Staff recommended that Pike/Waverly remove all volumes and costs associated with transport customers. (GCR Staff Report at 8-9.)

2. Actual Adjustment (AA)

{¶ 26} Staff examined the invoices from Eastern's supplier, Atmos. Staff found that none of the invoices matched the costs included for recovery through Eastern's GCR. Staff accounted for the errors in its AA calculations and concluded that the differences total ($104,065). These differences are not self-correcting. The negative adjustment represents a decrease to Eastern's GCR rates. (GCR Staff Report at 10.)

{¶ 27} Upon examining invoices from Atmos for Pike/Hillsboro, Staff found that the company did not properly record the purchase volumes and costs. Staff accounted for the errors and calculated differences totaling $106,259. The differences are not self-correcting. Staff's adjustment to its AA calculations leads to an increase to the company's GCR rates. (GCR Staff Report at 10.)

{¶ 28} Staff examined the invoices of Pike/Waverly's primary supplier, Atmos, and a local producer, Geopetro, LLC, to verify the amount of purchase volumes. To determine the jurisdictional amount, Staff had to remove any purchases made on behalf of transport customers. Staff also found a discrepancy in sales volumes for the audit period. Because the company failed to provide support for costs associated with hedging, Staff removed the costs from its calculations. Taking into account all the differences, Staff calculated an adjustment of ($267,641) in the customers' favor. Staff accounted for the errors in its AA calculations. The negative adjustment is a decrease to the company's GCR rates. (GCR Staff Report at 10-11.)

{¶ 29} Staff examined the invoices from Southeastern's producers: Atmos, Producers Gas Sales, Inc., and a small amount of local production. Staff found that the invoices for purchased volumes amounted to $288,212, which is less than the costs Southeastern included for recovery in its GCR filings. The examination of sales volumes showed significant differences between the amounts recorded in the company's filings and what appears in the company's billing reports and Big Gas sales summaries. Staff concluded that Southeastern's invoices and costs did not match its purchase volumes and costs for the 24 months under review. According to Staff's audit, the sales volumes contained in Southeastern's customer billing register and Big Gas sales summaries show a decrease in sales of 9,437 Mcf. In its AA calculations, Staff has accounted for these errors. The differences, which are not self-correcting, total ($216,293). The negative adjustment represents a decrease to the company's GCR rates. (GCR Staff Report at 11.)

{¶ 30} Staff made recommendations to address the errors noted. For Eastern, Staff noted that the differences between Staff's and the company's AA calculations are not self-correcting through the GCR mechanism. Staff, therefore, recommended a reconciliation adjustment of ($104,065) be applied to Eastern's GCR rates. Staff's recommendation represents the net difference in the AA calculations of Staff and the company. Staff recommended that the adjustment be applied in the first GCR filing following this Opinion and Order. (GCR Staff Report at 11.)

{¶ 31} For Pike/Hillsboro, Staff recommends a reconciliation adjustment of $106,259 be applied to its GCR rates. This amount represents the net difference Staff found in the AA calculations. Staff recommended that the adjustment be applied in the first GCR filing following the Opinion and Order in this case. (GCR Staff Report at 11.)

{¶ 32} Because the differences between Staff's and Pike/Waverly's calculations in the AA are not self-correcting through the GCR mechanism, Staff recommended a reconciliation adjustment of ($267,641) in the customers' favor. Staff suggested that the reconciliation adjustment be applied in the first GCR filing following the Opinion and Order in this case. (GCR Staff Report at 12.)

{¶ 33} For Southeastern, Staff recommends a reconciliation adjustment of ($216,293) be added to Southeastern's GCR rates. This figure represents the net difference Staff found in the AA calculations. Staff recommends that the adjustment be applied in the first GCR filing following the Opinion and Order in this case. (GCR Staff Report at 12.)

3. Refund and Reconciliation Adjustment (RA)

{¶ 34} With regard to the RA, Staff found that the Commission-ordered reconciliations from Case Nos. 11-207-GA-GCR, 11-214-GA-GCR, and 11-215-GA-GCR were included in each company's RA and passed back or collected from customers over 12 consecutive months. Staff found that none of the companies received refunds from their respective pipelines or suppliers. Consequently, Staff made no recommendations for the RA. (GCR Staff Report at 29-30.)

4. Balance Adjustment (BA)

{¶ 35} In its audit of Eastern, Staff reported, due to the sales volume differences discussed above, a small difference in Eastern's BA calculation. Staff calculated the need for an adjustment in the company's favor in the amount of $279. For Pike/Hillsboro, Staff found a difference in an AA calculation in the amount of $33,497, which should be made as an adjustment in the company's favor. Staff's calculation of the BA for Pike/Waverly differs slightly from the company's. The difference is attributable to Staff's and Pike/Waverly's variances in sales volumes. To account for the differences, Staff recommended that the BA be adjusted in the amount of $717 in the company's favor. For Southeastern, Staff included an RA of $10,770 for the quarter ending June 2013. Staff verified that there were no other reconciling adjustments to be included in the company's BA. However, Staff discovered that Southeastern incorrectly recorded sales volumes for certain months. The differences in sales volumes and RA have an effect on the BA calculation. To account for the effect, Staff recommended an adjustment of ($10,750). For each company, Staff recommends that the adjustment be applied in the first GCR filing following the Opinion and Order in this case. (GCR Staff Report at 31-32.)

5. Customer Billing

{¶ 36} Staff reviewed the companies' customer billing to ensure that GCR rates, base rate charges, and taxes were properly applied to jurisdictional customer bills during the audit period. With the exception of Eastern, Staff found no errors. Eastern misapplied the base rate in July 2013 and used the EGC instead of the GCR rate for the month of August 2014. Staff accounted for the improper use of the EGC in its AA calculation. Staff made no recommendations for customer billing. (GCR Staff Report at 49.)

6. Unaccounted-for Gas (UFG)

{¶ 37} Staff analyzed the UFG for each company based on information available from the audit period. To calculate the amount of UFG, Staff computed the difference between sales volumes and purchase volumes. Staff then divided the difference by the purchase volumes to arrive at a system UFG percentage. Staff concluded that the companies' UFG percentages are within acceptable levels. (GCR Staff Report at 50-51.)

{¶ 38} Staff recommended that the UFG levels of Eastern and Pike be monitored to determine why sales volumes exceed purchases. Staff explains that metering errors, timing differences in the recognition of purchases and sales, or the assignment of volumes to sales customers that were actually consumed by transportation customers are typical reasons for the discrepancy. (GCR Staff Report at 51.)

7. Management Issues

{¶ 39} In its audit of management issues, Staff focused on proper documentation and the accounting and filing of purchased gas costs. Staff discovered that three individuals were required to calculate a filing. It was not clear what each individual contributed or how each of their work products were incorporated into the calculations.

Moreover, Staff could not perform a thorough audit because necessary documents were not available and employee interviews did not take place. Staff described responses to its emailed questions as short and incomplete. Absent the necessary documentation, Staff was not able to get its cost allocations to match those of the companies. (GCR Staff Report at 52.)

{¶ 40} Staff recommended that at least one employee be capable of understanding the entire GCR process and the accompanying filings. The employee should be capable of reviewing GCR filings to ensure that invoices that are included for recovery are attributed to sales customers. The employee should also be able to substantiate costs with the necessary documentation. (GCR Staff Report at 52.)

B. *UEX Audit*

1. Eastern

{¶ 41} Pursuant to the Commission's authorization, Staff conducted an audit of Eastern's UEX account for rates effective during the period January 1, 2013, through December 31, 2014. The audit included a review of Eastern's collection practices and procedures that were in effect during the audit period. Staff notes that, in July 2013, Eastern implemented a new billing system. Problems in transitioning from the old system to the new resulted in customer billing delays. In response, Eastern initiated a non-disconnection policy until it resolved the billing issues. During the period July 2013 through December 2014, there were no disconnections or accounts placed into the annual balance reconciliation (ABR). (Eastern UEX Staff Report at 1-2.)

{¶ 42} Staff reviewed customer billing records to verify that Eastern charged the correct UEX rate. Staff confirmed that no carrying charges were applied to the ABR. After comparing monthly UEX charges billed to customers with the company's ABR report, Staff found discrepancies in the October through December 2013 billings. Staff found that the company incorrectly billed customers a UEX rate of $0.00 per Mcf instead of $0.0604

Mcf. Staff also found that Eastern prorated the UEX charge when a customer starts or discontinues service during a monthly billing cycle. Staff pointed out that proration is not a standard industry practice, nor is it consistent with Commission precedent. (Eastern UEX Staff Report at 2.)

{¶ 43} Staff examined the recoveries resulting from the billing of the UEX rider. Staff relied upon sales volumes reported in the financial audit of Eastern's GCR mechanism to calculate the amount of recovery obtained through the UEX rider. Staff recalculated the amount received through the UEX rider for August 2013 through December 2013 and found a discrepancy that would result in a change in the December 2014 balance. Eastern recorded a December 2014 balance of ($28,322.45), which Staff corrected to ($26,775.27), a change of $1,547.18. (Eastern UEX Staff Report at 2.)

{¶ 44} Staff made recommendations to address its findings. Because Staff found that Eastern does not have written procedures in place for writing off a bad debt account, Staff recommends that Eastern implement a written bad debt write-off policy. Staff suggests that Eastern write off accounts for non-payment at a minimum of 60 days to a maximum of 180 days. With reference to industry practice and Commission precedent, Staff recommends that Eastern discontinue pro-rating the monthly UEX rate to new and former customers during a billing cycle. In light if its calculations, Staff recommends that Eastern adjust its December 2014 ending balance to ($26,775.27). (Eastern UEX Staff Report at 2-3.)

2. Pike

{¶ 45} Staff conducted an audit of Pike's UEX account for rates effective during the period January 1, 2013, through December 31, 2014. The audit included a review of Pike's collection practices and procedures that were in effect during the audit period. Staff notes that, in July 2013, Pike implemented a new billing system. Problems in transitioning from the old system to the new resulted in customer billing delays. In response, Pike initiated a non-disconnection policy until it resolved the billing issues. During the period July 2013 through December 2014, there were no disconnections or accounts placed into the ABR. (Pike UEX Staff Report at 1-2.)

{¶ 46} Staff reviewed customer billing records to verify that Pike charged the correct UEX rate. Staff confirmed that no carrying charges were applied to the ABR. After comparing monthly UEX charges billed to customers with the company's ABR report, Staff found, in August 2013, that the company incorrectly listed in its ABR a UEX rate of ($0.0109) per Mcf instead of the company's stated UEX rate of $0.00 per Mcf. The error only affected the company's UEX rate calculation. Pike customers were billed the correct rate of $0.00 for the month. Staff adjusted the August 2013 ABR to indicate a charge of $0.00 per Mcf. Staff also discovered that the company pro-rated the UEX charge when a customer starts or discontinues service during a monthly billing cycle. Staff pointed out that proration is not a standard industry practice, nor is it consistent with Commission precedent. (Pike UEX Staff Report at 2.)

{¶ 47} Staff examined the recoveries resulting from the billing of the UEX rider. Staff relied upon sales volumes reported in the financial audit of Pike's GCR mechanism to calculate the amount of recovery obtained through the UEX rider. Staff recalculated the amount received through the UEX rider for August 2013 through December 2013 and found a discrepancy that would result in a change in the December 2014 balance. Pike recorded a December 2014 balance of ($1,098.97), which Staff corrected to ($1,608.55), a change of ($509.58). (Pike UEX Staff Report at 2.)

{¶ 48} Staff made recommendations to address its findings. Staff recommends that Pike implement a written bad debt write-off policy. Staff suggests that Pike write off accounts for non-payment at a minimum of 60 days to a maximum of 180 days. With reference to industry practice and Commission precedent, Staff recommends that Pike discontinue pro-rating the monthly UEX rate to new and former customers during a billing cycle. In light if its calculations, Staff recommends that Pike adjust its December 2014 ending balance to ($1,608.55). (Pike UEX Staff Report at 2-3.)

C. *PIPP Audit*

{¶ 49} On February 19, 2015, the Commission initiated the first financial audit of the PIPP accounts of Eastern, Pike, and Southeastern. The audit examined PIPP applications and rates that were in effect during the calendar years 2013 and 2014. Staff completed an audit analysis of the companies' PIPP arrearages and recoveries. (PIPP Staff Report at 1.)

{¶ 50} Eastern, Pike, and Southeastern filed PIPP applications on June 19, 2014, and June 19, 2015. In their applications, the companies identified the accumulated write-offs and recoveries form the prior year's filing through March 2014 and March 2015. The applications also contained anticipated write-offs for the next 12 months. (PIPP Staff Report at 1.)

{¶ 51} In its audit of the companies, Staff focused on PIPP activities after July 2013, which coincides with the installation of the companies' new billing system and termination of the previous owner's billing system. In conducting its audit, Staff examined the companies' billing registers, taking account of a customer's consumption, billed amount, and installment amount. For each month, the companies summed the PIPP customers' billed amounts and subtracted the installment amount. The net was then recorded as a write-off. The companies sought to recover the write-offs through their PIPP riders. (PIPP Staff Report at 2.)

{¶ 52} Upon reviewing the companies' registers, Staff discovered that billed amounts were posted to customers' account balances, but customers' installment payments were inconsistent and infrequent. The payments may or may not have been made by the customers. The effect was an overstatement of payments received from PIPP customers and an understatement of customer write-offs. Through queries to the billing register, Staff was able to determine the amount of customer payments for the period August 2013 through December 2014. By separating amounts billed from amounts paid, Staff calculated the actual payments for two periods: August 2013 to December 2013 and calendar year 2014. (PIPP Staff Report at 2.)

{¶ 53} As the next step, Staff examined the recoveries through the companies' respective PIPP riders and verified monthly sales volumes. Rider rates are applied to monthly sales volumes. For the period August 2013 through December 2014, Staff found discrepancies that were attributable to the exclusion of installment payments. To account for the discrepancies, Staff based its calculations on actual customer payments instead of billed amounts. (PIPP Staff Report at 2-3.)

{¶ 54} In its audit, Staff discusses the companies' PIPP forgiveness program. In *In re Commission's Review of Chapters 4901:1-17, et al.*, Case No. 08-723-AU-ORD, Entry (June 23, 2010), the Commission granted the companies a waiver to adopt an alternative PIPP forgiveness program, exempting them from the graduate PIPP rules. The companies' alternative program provides an arrearage credit to a PIPP customer who makes at least nine timely PIPP payments over a 12-month period from August through July. The program also allows an arrearage credit to a PIPP customer making 75 percent of the minimum required PIPP payments. Moreover, PIPP customers could eliminate their entire accumulated arrearage in one year with 12 timely installment payments. (PIPP Staff Report at 3.)

{¶ 55} To determine eligibility for arrearage forgiveness credits, the companies manually tracked the number of installment payments made by a customer. If a customer had made nine or more installment payments by August, the customer's name would be placed on a list. The billing department would then calculate the forgiveness credit. Staff conducted a review of the companies' process by comparing the customers' billing histories to the list of customers eligible for forgiveness credits. Staff then investigated the number of payments made, eligibility for a credit, and the amount of the credit. Staff discovered that several customers made more than the nine payments but were inconsistent in the amount of their payments. Staff also found that several customers listed as eligible for forgiveness credits did not receive credits because their account balance was below zero when the credit was calculated. Staff could not replicate the credit calculated by the companies. Instead, Staff calculated forgiveness credits by using September's ending balance times the percentage attributable to the number of payments that the customer had made. In most instances, Staff's credits differed from those calculated by the companies. (PIPP Staff Report at 3-4.)

{¶ 56} To account for differences in calculations, Staff recommends that the companies restate their January 1, 2015 beginning balances as follows: ($143,220) for Eastern, ($226,615) for Pike, and $6,585 for Southeastern. In addition, Staff recommends that the companies consistently use the September month ending balance when calculating the forgiveness credits. The applied percentage is to be based upon the number of installment payments made between August and July to balances greater than zero. (PIPP Staff Report at 4.)

IV. STIPULATION OF THE PARTIES

{¶ 57} On April 22, 2016, Staff, Eastern, Pike, and Southeastern (collectively, the parties) filed a Stipulation that resolves all the UEX, PIPP, and GCR issues in these proceedings. The following is a summary of the Stipulation and is not intended to supersede or replace the Stipulation.

{¶ 58} To resolve the GCR issues, the parties agreed and made recommendations in six areas: EGC, AA, BA, management issues, hedging, and UFG. For EGC, Eastern, Pike/Hillsboro, and Southeastern will double-check their sales volumes prior to inclusion in their filings. In addition, Pike will make an adjustment with respect to Pike/Waverly to remove all volumes and costs associated with transport customers. (Jt. Ex. 1 at 3.)

{¶ 59} For AA calculations, the parties agreed on reconciliation adjustments for each company. Eastern will implement a reconciliation adjustment of ($102,985) to be applied to its GCR rates in the first GCR filing that follows this Opinion and Order. The adjustment accounts for recording errors in the AA calculations. For Pike/Hillsboro, Pike will implement a reconciliation adjustment of $257,864 to the first GCR rates that it files after this Opinion and Order. The adjustment reflects the net difference that Staff found in the RA calculations. For its Pike/Waverly GCR rates, Pike will implement a reconciliation adjustment of ($54,091) that will be applied in the first GCR filing that follows this Opinion and Order. The Pike/Waverly GCR filings did not include costs associated with serving three schools in Scioto County. Pike purchases gas for the schools from an unregulated cooperative, Knox Energy Cooperative (Knox Energy). The Stipulation describes Staff's efforts to audit the costs of gas purchases from the unregulated cooperative. The parties agree that, because it is essential to be able to audit gas purchases from the unregulated cooperative, all costs sought for recovery through the Pike and Eastern GCR filings should be verifiable through documentation from non-affiliated parties. Finally, Southeastern will implement a reconciliation adjustment of ($182,590) to be applied to Southeastern's GCR rates in the first GCR filing following this Opinion and Order. (Jt. Ex. 1 at 3-5.)

{¶ 60} To reconcile discrepancies in the BA, the parties agree that Eastern shall implement a reconciliation adjustment of $279. Pike will implement a reconciliation adjustment of $33,497 for Pike/Hillsboro. For Pike/Waverly, Pike will implement a reconciliation adjustment of $717. Southeastern will implement a reconciliation adjustment of ($10,750). The parties agree that all reconciliation adjustments will be applied in the first GCR filing following this Opinion and Order. (Jt. Ex. 1 at 5.)

{¶ 61} The parties point out that this is the first audit of Eastern, Pike, and Southeastern while under the operation of UPL. Although UPL had ownership during the prior audit, it had not yet instituted its own operations. The Stipulation states that the companies now have a better understanding of audits and required documents. The companies will have at least one employee who is acquainted with the entire GCR process and accompanying filings. That employee will be capable of reviewing GCR filings to ensure that invoices that are being included for recovery are attributed to sales customers. (Jt. Ex. 1 at 5-6.)

{¶ 62} The parties have agreed that each will try to understand the other's position concerning hedging. Each understands that flexibility is needed for a meaningful discussion and analysis of the issue in the next GCR case. (Jt. Ex. 1 at 6.)

{¶ 63} Staff and the companies agree that unaccounted-for-gas percentages for Eastern and Pike are within acceptable levels. The parties further agree that, if the Commission approves the application in *In re Southeastern Natural Gas Company, et al.*, Case No. 15-1508-GA-ATR, the present cases will be the final GCR and PIPP audits for Southeastern. Eastern and Pike will continue to monitor unaccounted-for gas levels to determine why purchases exceed sales volumes. (Jt. Ex. 1 at 6.)

{¶ 64} To resolve the issues concerning the UEX riders, the parties agree that Eastern and Pike shall implement a written bad debt write-off policy to write off accounts for non-payment at 90 days. In accordance with the UEX Staff Reports, Eastern and Pike will adjust their December 2014 ending balance to ($26,775.27) and ($1,608.55), respectively. Finally, the parties note that Staff's recommendation regarding discontinuing the pro-rating of the monthly UEX rates to new and former customers is no longer an issue in these cases. (Jt. Ex. 1 at 6-7.)

{¶ 65} The parties agree that the companies will restate their January 1, 2015 beginning balances in the "Deferred PIPP Balance." Eastern will restate its balance as ($143,220). Pike will restate its balance as ($226,615). Southeastern will restate its balance as $6,585. The parties agree that the companies will consistently use the September month-ending balance when calculating the forgiveness credits. The companies will base the applied percentage on the number of installment payments made between August and July to balances greater than zero. (Jt. Ex. 1 at 7.)

V. CONCLUSION

{¶ 66} Ohio Adm.Code 4901-1-30 authorizes parties to Commission proceedings to enter into a stipulation. Although not binding on the Commission, the terms of such an agreement are afforded substantial weight. *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 125, 592 N.E.2d 1370 (1992), *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.

{¶ 67} The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. *See, e.g., In re Cincinnati Gas & Elec. Co.*, Case No. 91-410-EL-AIR, Order on Remand (Apr. 14, 1994); *In re Western Reserve Telephone Co.*, Case No. 93-230-TP-ALT, Opinion and Order (Mar. 30, 1994); *In re Ohio Edison Co.*, Case No. 91-698-EL-FOR, et al., Opinion and Order (Dec. 30, 1993); *In re Cleveland Elec. Illum. Co.*, Case No. 88-170-EL-AIR, Opinion and Order (Jan. 30, 1989); *In re Restatement of Accounts and Records*, Case No. 84-1187-EL-UNC, Opinion and Order (Nov. 26, 1985). 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?

{¶ 68} The Ohio Supreme Court has endorsed the Commission's analysis using these criteria to resolve issues 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, 629 N.E.2d 423 (1994), *citing Consumers' Counsel* at 126. The Court stated in that case that the

Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission.

{¶ 69} During the May 24, 2016 public hearing, Staff offered the testimony of Roger L. Sarver to support the Stipulation. Mr. Sarver confirmed that the Stipulation presented in these cases is the product of serious bargaining among capable, knowledgeable parties; that it benefits ratepayers and is in the public interest; and that it does not violate any important regulatory principle or practice. (Tr. at 8-9.)

{¶ 70} Based on our three-pronged standard of review, we find that the first criterion, that the process involved serious bargaining by knowledgeable, capable parties, is clearly met for the Stipulation. The companies and Staff have been involved in many cases before the Commission, including a number of GCR, UEX, and PIPP cases. Moreover, these parties have consistently provided helpful information to the Commission in cases regarding GCR and fuel-related policies and practices, UEX cases, PIPP cases, and other Commission proceedings. 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 the companies' GCR and fuel-related policies and practices, UEX issues, and PIPP concerns during the audit period. Mr. Sarver testified that the companies' GCR, UEX, and PIPP audits identified errors, adjustments, and the inclusion of costs that were not previously recorded or recognized for recovery and that the end result is adjustments that reflect the costs that the companies have incurred to provide services to its customers. Moreover, the Stipulation meets the third criterion because it does not violate any important regulatory principle or practice. (Tr. at 8-9.) Accordingly, we find that the Stipulation should be adopted and approved.

{¶ 71} Although Mr. Sarver supported the Stipulation, he noted some concerns that Staff became aware of after Staff filed its GCR Staff Report. Pike notified Staff about the costs associated with serving three schools in Scioto County. The schools are served through a combination of local distribution companies. Gas enters through Columbia and, from there, it is transported to Knox Energy. Knox Energy then transports it to Pike. Pike, in turn, serves the local distribution companies that serve the three schools. According to Mr. Sarver, Staff was not aware that the schools were customers. Nor was Staff aware of the schools' costs and how the costs were being recognized through Pike/Waverly's GCR mechanism. Mr. Sarver noted that the Stipulation mentions that the company did not include the costs in Pike/Waverly's GCR filings. For that reason, Staff could not consider the impact on the company's gas supply cost charged by Knox Energy. (Tr. at 9-10; Jt. Ex. 1 at 4.)

{¶ 72} Mr. Sarver testified that vital to future audits is the ability to audit the cost of gas purchased from unregulated cooperatives. Concerning this issue, Mr. Sarver recommended that all costs sought for recovery through Eastern's and Pike's GCR filings should be verified through documentation from non-Knox Energy and non-affiliated parties. Noting the layers of local distribution companies, Mr. Sarver referred to similar situations in past audits. Mr. Sarver pointed to the additional costs to customers that attend the practice of inserting additional entities into the procurement or delivery of gas. Staff wishes to highlight this practice with the hope that it does not become the norm. (Tr. at 10-11; Jt. Ex. 1 at 5.)

{¶ 73} The Commission shares Staff's concerns. Consistent with Staff's recommendation (Tr. at 10-11) and pursuant to the Stipulation (Jt. Ex. 1 at 5), for future audits, the companies will be expected to be able to verify all costs sought for recovery through their GCR filings with documentation from non-Knox Energy (or any other applicable cooperative) and non-affiliated parties. Likewise for future audits, the Commission directs Staff or any other auditor selected by the Commission to monitor the companies' practice of inserting additional entities into the procurement or delivery of gas and report its findings to the Commission for further consideration.

VI. FINDINGS OF FACT AND CONCLUSIONS OF LAW

{¶ 74} Eastern, Pike, and Southeastern are natural gas companies within the meaning of R.C. 4905.03, and, as such, are public utilities subject to the supervision and jurisdiction of this Commission.

{¶ 75} R.C. 4905.302, together with Ohio Adm.Code 4901:1-14-07, requires the Commission to review the purchased gas adjustment clause contained within the tariffs of each gas and natural gas company on an annual basis, unless otherwise ordered by the Commission.

{¶ 76} On February 19, 2015, the Commission initiated these proceedings, established the financial audit periods, established the date upon which the financial audit reports must be filed, and directed Staff to conduct the audits required under Ohio Adm.Code 4901:1-14-07. The Commission scheduled a hearing for January 19, 2016, and directed the companies to publish notice of the hearing.

{¶ 77} Pursuant to a motion to extend time filed by Staff, the attorney examiner issued an Entry on November 24, 2015, rescheduling the hearing for February 24, 2016, and setting December 18, 2015, as the deadline to file audit reports.

{¶ 78} On December 18, 2015, Staff filed a GCR audit report, UEX audit reports, and PIPP audit report.

{¶ 79} At the February 24, 2016 hearing, the parties requested a continuation to allow additional time to resolve remaining issues.

{¶ 80} On April 22, 2016, the parties filed a Stipulation resolving all issues in these proceedings.

{¶ 81} On May 19, 2016, the attorney examiner issued an Entry scheduling a hearing for May 24, 2016.

{¶ 82} At the May 24, 2016 hearing, the parties submitted a Stipulation that resolves all GCR, UEX, and PIPP issues. The Stipulation is reasonable, meets the criteria used by the Commission to evaluate stipulations, and should be adopted.

{¶ 83} Except as noted in the audit reports, the Stipulation, and this Order, the companies accurately determined their GCR rates for the audit periods and applied the GCR rates to customer bills in accordance with the financial and procedural aspects of Ohio Adm.Code Chapter 4901:1-14. Accordingly, the gas costs passed through the companies' GCR rates for the audit periods were fair, just, and reasonable, except as noted in this decision.

{¶ 84} Eastern and Pike accurately calculated their UEX rider rates during the UEX audit periods, except to the extent noted in the audit reports and this decision.

{¶ 85} The companies accurately calculated their PIPP rider rates during the PIPP audit period, except to the extent noted in the audit report and this decision.

VII. ORDER

{¶ 86} It is, therefore,

{¶ 87} ORDERED, That the Stipulation of the parties be approved and adopted. It is, further,

{¶ 88} ORDERED, That the auditor selected to conduct the companies' next audits shall evaluate how the companies implement the agreements set forth in the Stipulation and the directives set forth in this Opinion and Order. It is, further,

{¶ 89} ORDERED, That nothing in this Opinion and Order shall be binding upon this Commission in any subsequent investigation or proceeding involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 90} ORDERED, That a copy of this Opinion and Order be served upon each party and interested person of record.

Commissioners Voting: Asim Z. Haque, Chairman; Lynn Slaby; M. Beth Trombold; Thomas W. Johnson

LDJ/vrm