

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

In the Matter of the Review of Youngstown Thermal, LLC and Youngstown  
Thermal Cooling, LLC

## EXECUTIVE SUMMARY

Staff conducted a review of Youngstown Thermal, LLC and Youngstown Thermal Cooling, LLC's (collectively, the Company or Youngstown Thermal) financial condition to determine an emergency surcharge so as to avoid immediate loss of cooling and heating services to its customers. Through this review, Staff determined that the emergency surcharge should be assessed at this time, on a fixed customer charge basis for the months of July, August and September. The fixed charge is necessary to assure the minimum amount of revenue during the reduced usage period of the summer to pay essential expenses. By September 15, 2017, Staff proposes to submit an additional report to adjust the emergency surcharge for the fall and winter months. The essential expenses consist of payroll expenses, including employee health care expenses, identified by Youngstown Thermal.

## BACKGROUND

Youngstown Thermal is engaged in the business of providing district heating and cooling to customers in downtown Youngstown, Ohio.<sup>1</sup> As such, Youngstown Thermal is "a heating or cooling company" as defined in R.C. 4905.03(H) and thus is a public utility subject to the supervision of the Public Utilities Commission of Ohio (Commission or PUCO) pursuant to R.C. 4905.04 - 4905.06. Youngstown Thermal is owned by Youngstown Thermal Holdings, Inc. (YT HoldCo).<sup>2</sup> Youngstown Thermal, through its predecessors Youngstown Thermal Energy Corporation and Youngstown Thermal Limited Partnership, began providing steam heating services in Youngstown in 1980, after acquiring an existing steam system from the Ohio Edison Company. The Company has approximately 40 steam customers and four chilled water customers.

The Commission has jurisdiction over the Company's financial structure, complaint proceedings, service abandonment issues and other public utility matters. The Company's rates were established by the City of Youngstown by city ordinance rather than by the Commission, with several customers served through contracts.<sup>3</sup>

In February 2015, a concerned customer of Youngstown Thermal informally contacted the PUCO, although a formal complaint was not initiated. Based on the customer's concerns, Staff initiated discussions with the Company. The Company asserted that there was the potential for its largest customer, Youngstown State University (YSU), to depart the Youngstown Thermal system. At that time, YSU represented approximately

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<sup>1</sup> District heating and cooling are systems for distributing steam for heating purposes and chilled water for cooling purposes from a centralized location via underground infrastructure to commercial and industrial properties.

<sup>2</sup> See *In the Matter of the Joint Application of Youngstown Thermal, LLC and Youngstown Thermal Cooling, LLC to Change Ownership*, Case No. 11-2913-HC-UNC, *et al.*, Finding and Order (June 22, 2011).

<sup>3</sup> See R.C. 4909.34.

60% of both the system load and revenues for Youngstown Thermal. Staff discussed with Youngstown Thermal its financial viability in light of the potential loss of YSU. Over the course of 19 months (February 2015 to August 2016), Staff met in person, conducted an on-site visit, and spoke on the phone with Company management and the Company's outside accounting firm. The Company indicated that while it may lose YSU as a customer, the revenue would be supplemented through increasing load by bringing a local hospital on to the system and through a recent award of the U.S. Department of Energy Advanced Supercritical Project (DOE Project). In August 2016, Youngstown Thermal confirmed that YSU had indeed left the system in June of 2016.

On May 12, 2017, Staff followed up with the Company by phone to inquire as to the state of its finances, this was following an unusually warm 2016/2017 winter heating season during which time load was reduced,. The Company indicated that cash flows were tightening due to various reasons, including collection problems, and also confirmed the cancellation of the DOE Project.

On June 30, 2017, the Commission issued its Finding and Order in this proceeding, concluding that Youngstown Thermal cannot ensure adequate service to their customers in violation of R.C. 4905.22. The Commission further found that, due to its inability to timely pay utility suppliers, debt service, and employee payroll and the magnitude by which its outstanding debt servicing requirements exceed currently projected revenue, Youngstown Thermal was in imminent danger of insolvency. Thus, pursuant to the authority granted by R.C. 4905.60, the Commission directed the Attorney General to seek the appointment of a receiver and pursue any other appropriate civil remedy.

On July 7, 2017, the Attorney General filed a complaint in the Mahoning County Court of Common Pleas. Along with the complaint, the Attorney General filed a motion for the appointment of a receiver. In response to this motion, the Magistrate for the Common Pleas Court directed that the Commission and Youngstown Thermal submit the name of the receiver to be appointed by July 21, 2017.

On July 21, 2017, the Commission issued its Second Finding and Order in this proceeding, finding that immediate action is necessary to protect public health and safety to prevent damage to property. Thus, the Commission took additional steps to ensure reliable utility service to the customers of Youngstown Thermal, by ordering Youngstown Thermal to establish a segregated escrow account in which all future payments by customers should be deposited. The Commission also found that Youngstown Thermal is in imminent danger of insolvency and an emergency surcharge is necessary to maintain heating and cooling service to downtown Youngstown, thus Staff should work with Youngstown Thermal to implement an emergency surcharge on customer rates that would operate "at a minimum, to compensate the skilled employees necessary for the operation of the system."<sup>4</sup>

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<sup>4</sup> See *In the Matter of the Review of Youngstown Thermal, LLC and Youngstown Thermal Cooling, LLC*, Case No. 17-134-HC-UNC, Second Finding and Order at ¶18 (July 21, 2017).

## STAFF FINDINGS

Youngstown Thermal is a heating and cooling company with 90% of its 2016 revenues coming from the heating customers. Youngstown Thermal charges customers on a volumetric basis with a portion of its heating customers on budget billing. Due to the seasonality of the heating load, the majority of Youngstown Thermal's revenues are generated during the winter season. Due to the reduced usage in heating for the months of July, August and September, a volumetric emergency surcharge would not generate the proper revenue and would create a disproportionate burden on a few customers, due to the limited summer usage. Thus, Staff has designed and recommends a fixed monthly emergency surcharge. The emergency surcharge is designed to be a charge in addition to the current rates in place by Youngstown Thermal. Additionally, due to the differences created on a cash flow basis related to the seasonality of the service, Staff proposes that the recommended emergency surcharge be applied for the remaining summer months (July, August and September), and then be reassessed for the fall/winter months. In September, an adjustment to the emergency surcharge may be needed to properly reflect the increased cash flow for the fall months.

Youngstown Thermal provided Staff with its estimated monthly essential expenses of roughly \$199,000 (Attachment 1), which included employee payroll expenses. Based on those expenses, Staff determined an emergency surcharge rate structure to achieve the proper cash flow to pay all monthly essential expenses; however, those charges would result in an astronomical increase for customers. (See Attachment 2.) Due to the high rate increase to customers, Staff altered the emergency surcharge rate structure to achieve the proper cash flow to pay employee payroll and health care expenses alone, understanding that this does not allow enough cash flow on its own to cover all of the estimated essential expenses. Staff utilized the amounts provided by Youngstown Thermal for its employee payroll and healthcare expenses and then multiplied this amount by 120% in order to account for the potential of late and/or non-payment by customers. Staff allocated the expenses based on the percentage of revenues generated in 2016 between the heating and cooling customers. Based on 2016 revenues, 90% of the payroll and health care costs was allocated to the heating customers and 10% was allocated to the cooling customers.

Staff determined that a minimum customer charge of \$100 per account should be established to spread the cost equitably amongst all customer accounts. Once the minimum customer charge was established, Staff allocated remaining payroll and healthcare expenses based on peak demand. To do this, Staff calculated each customer account's percentage contribution to the peak demand month for 2016 for both heating and cooling customer accounts. The peak demand month for heating customers in 2016 was January and the peak demand month for cooling customers was August... Each customer account's percentage contribution was then applied to the monthly payroll and health care costs to determine each accounts monthly emergency surcharge. Below is Staff's recommended summer emergency surcharge by customer.

<u>2016 Heating Customers</u>	<u>Minimum Customer Charge</u>	<u>% Contribution to Peak Demand (Jan 2016)</u>	<u>Additional Charge Based on %</u>	<u>Total Customer Surcharge (Rounded to nearest \$)</u>
██████	\$ 100.00	1.3%	\$ 1,056.94	\$ 1,157
██████████████████	\$ 100.00	0.8%	\$ 654.29	\$ 754
██████████	\$ 100.00	5.4%	\$ 4,315.83	\$ 4,416
██████████████████	\$ 100.00	0.0%	\$ -	\$ 100
██████████████████	\$ 100.00	7.3%	\$ 5,869.78	\$ 5,970
██████████	\$ 100.00	4.9%	\$ 3,900.60	\$ 4,001
██████████████████	\$ 100.00	3.4%	\$ 2,692.68	\$ 2,793
██████████	\$ 100.00	0.0%	\$ 25.17	\$ 125
██████	\$ 100.00	4.8%	\$ 3,881.73	\$ 3,982
██████████████████	\$ 100.00	0.0%	\$ -	\$ 100
██████████	\$ 100.00	1.5%	\$ 1,239.39	\$ 1,339
██████████	\$ 100.00	0.4%	\$ 320.86	\$ 421
██████████	\$ 100.00	1.1%	\$ 918.53	\$ 1,019
██████████	\$ 100.00	3.1%	\$ 2,466.19	\$ 2,566
██████████████████	\$ 100.00	0.0%	\$ -	\$ 100
██████████	\$ 100.00	1.4%	\$ 1,119.85	\$ 1,220
██████████	\$ 100.00	0.4%	\$ 320.86	\$ 421
██████████	\$ 100.00	2.7%	\$ 2,145.33	\$ 2,245
██████████████████	\$ 100.00	6.1%	\$ 4,863.17	\$ 4,963
██████████	\$ 100.00	0.8%	\$ 660.59	\$ 761

██████████	\$ 100.00	0.0%	\$ 12.58	\$ 113
██████████	\$ 100.00	2.9%	\$ 2,302.61	\$ 2,403
██████████	\$ 100.00	1.7%	\$ 1,352.63	\$ 1,453
██████████	\$ 100.00	0.0%	\$ -	\$ 100
██████████	\$ 100.00	0.0%	\$ -	\$ 100
██████████	\$ 100.00	0.3%	\$ 270.53	\$ 371
██████████	\$ 100.00	0.1%	\$ 50.33	\$ 150
██████████	\$ 100.00	4.9%	\$ 3,900.60	\$ 4,001
██████████	\$ 100.00	3.1%	\$ 2,478.77	\$ 2,579
██████████	\$ 100.00	3.2%	\$ 2,541.68	\$ 2,642
██████████	\$ 100.00	6.1%	\$ 4,863.17	\$ 4,963
██████████	\$ 100.00	2.3%	\$ 1,843.35	\$ 1,943
██████████	\$ 100.00		\$ 6.29	\$ 106
██████████	\$ 100.00	1.7%	\$ 1,384.09	\$ 1,484
██████████	\$ 100.00	3.2%	\$ 2,541.68	\$ 2,642
██████████	\$ 100.00	15.6%	\$ 12,481.93	\$ 12,582
██████████	\$ 100.00	1.1%	\$ 918.53	\$ 1,019
██████████	\$ 100.00	3.2%	\$ 2,566.85	\$ 2,667
██████████	\$ 100.00	2.3%	\$ 1,843.35	\$ 1,943
██████████	\$ 100.00	1.7%	\$ 1,384.09	\$ 1,484
██████████	\$ 100.00	1.0%	\$ 786.41	\$ 886

<u>2016 Cooling Customers</u>		<u>% Contribution to Annual Load</u>		
██████	\$ 100.00	47.3%	\$ 4,089.50	\$ 4,190
██████████	\$ 100.00	11.9%	\$ 1,028.47	\$ 1,128
██████████	\$ 100.00	14.0%	\$ 1,209.50	\$ 1,310
██████████	\$ 100.00	26.8%	\$ 2,315.11	\$ 2,415

## STAFF RECOMMENDATION

Staff recommends that the fixed emergency surcharge to recover 120% of essential payroll and health care expenses identified in the table above be adopted for the months of July, August and September. Additionally, Staff recommends that fall emergency rates may need to be reassessed through a separate filing in September.

# Attachment 1

## Item 4 Essential Expenses Projections

	YT	YTC
Electric	7000	6500
water	10000	3500
Phones	225	
Internet	200	
Cell phones	338	
sewer	3500	
Health Ins	8500	
Fuel	80000	summer months
Payroll	70000	
chemicals	1500	500
R&M	6000	100
Supplies	400	
Misc	10000	
	197663	10600

### Urgent Needs:

1 payroll current and past	\$ 53,900.00
2 Vehicle insurance	\$ 15,000.00
3 employee health insurance May, June, July	\$ 27,500.00
4 Turbine Oil	\$ 600.00
5 Chemicals - need to pay \$5000 in 90 day invoices	\$ 5,000.00
6 Quickbooks annual renewal is August 6th	\$ 700.00
7 sewer self test was due in June but has been performed	\$ 600.00
7 Cash to pay local parts, materials and services vendors	

# Attachment 2

## Youngstown Thermal Financials and Potential Customer Surcharge

Estimated Essential Monthly Expenses	\$ 199,000	Average Summer
2016 Annual Revenue (Less Customers Off-system in 2017)	\$ 1,416,603	Monthly Revenue
Annual Estimated Essential Expenses	\$ 2,388,000	\$ 40,655.33
Estimated Annual Losses	\$ (971,397)	

<u>2016 Heating Customers</u>	<u>All Essential O&amp;M Charge Based on Peak Demand</u>	<u>Payroll Only Charge Based on Peak Demand</u>	<u>All O&amp;M vs Payroll Only</u>
	\$ 2,197.00	\$ 761.00	\$ (1,436.00)
	\$ 1,550.00	\$ 100.00	\$ (1,450.00)
	\$ 7,429.00	\$ 4,963.00	\$ (2,466.00)
	\$ 500.00	\$ 2,667.00	\$ 2,167.00
	\$ 9,924.00	\$ 4,416.00	\$ (5,508.00)
	\$ 6,762.00	\$ 2,572.00	\$ (4,190.00)
	\$ 4,823.00	\$ 2,642.00	\$ (2,181.00)
	\$ 540.00	\$ 3,982.00	\$ 3,442.00
	\$ 6,732.00	\$ 886.00	\$ (5,846.00)
	\$ 500.00	\$ 125.00	\$ (375.00)
	\$ 2,490.00	\$ 421.00	\$ (2,069.00)
	\$ 1,015.00	\$ 5,970.00	\$ 4,955.00
	\$ 1,975.00	\$ 1,484.00	\$ (491.00)
	\$ 4,459.00	\$ 2,403.00	\$ (2,056.00)
	\$ 500.00	\$ 1,943.00	\$ 1,443.00
	\$ 2,298.00	\$ 100.00	\$ (2,198.00)
	\$ 1,015.00	\$ 2,566.00	\$ 1,551.00
	\$ 3,944.00	\$ 4,001.00	\$ 57.00
	\$ 8,308.00	\$ 2,648.00	\$ (5,660.00)
	\$ 1,561.00	\$ 1,453.00	\$ (108.00)
	\$ 520.00	\$ 12,582.00	\$ 12,062.00
	\$ 4,197.00	\$ 113.00	\$ (4,084.00)
	\$ 2,672.00	\$ 100.00	\$ (2,572.00)
	\$ 500.00	\$ 100.00	\$ (400.00)
	\$ 500.00	\$ 371.00	\$ (129.00)
	\$ 934.00	\$ 1,484.00	\$ 550.00
	\$ 581.00	\$ 150.00	\$ (431.00)
	\$ 4,470.00	\$ 1,220.00	\$ (3,250.00)
	\$ 4,480.00	\$ 2,579.00	\$ (1,901.00)
	\$ 7,146.00	\$ 754.00	\$ (6,392.00)
	\$ 4,591.00	\$ 421.00	\$ (4,170.00)
	\$ 7,187.00	\$ 1,019.00	\$ (6,168.00)
	\$ 510.00	\$ 1,019.00	\$ 509.00
	\$ 2,722.00	\$ 1,339.00	\$ (1,383.00)
	\$ 4,581.00	\$ 4,240.00	\$ (341.00)
	\$ 20,539.00	\$ 1,157.00	\$ (19,382.00)
	\$ 1,975.00	\$ 2,793.00	\$ 818.00
	\$ 4,621.00	\$ 100.00	\$ (4,521.00)
	\$ 3,459.00	\$ 4,265.00	\$ 806.00
	\$ 2,722.00	\$ 106.00	\$ (2,616.00)
	\$ 1,763.00	\$ 2,245.00	\$ 482.00
<u>2016 Cooling Customers</u>			
	\$ 9,972.00	\$ 4,190.00	\$ (5,782.00)
	\$ 2,882.00	\$ 2,415.00	\$ (467.00)
	\$ 3,301.00	\$ 1,128.00	\$ (2,173.00)
	\$ 5,862.00	\$ 1,310.00	\$ (4,552.00)

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