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

Foraker Gas Company, Inc.
17-204-GA-GCR

Financial Audit of the Gas Cost Recovery Mechanisms for the period of February 2015 through January 2017

August 18, 2017

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 Foraker Gas Company, Inc.'s (Foraker or Company) gas cost recovery (GCR) and costs incurred and included for recovery for the period of February 2015 through January 2017. The Staff audited for conformity with the procedural aspects of the uniform purchased gas adjustment as set forth in Chapter 4901:1-14, O.A.C and related appendices, and by the Commission Entry signed on February 01, 2017 in Case No. 17-204-GA-GCR.

Our audits have revealed certain findings, as discussed in this audit report, which should be addressed in this proceeding. The Staff asserts that at the time of preparing this report, unless otherwise noted, Foraker accurately calculated its Gas Cost Recovery (GCR) rates for those periods under investigation in accordance with the uniform purchased 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.

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Section I

Executive Summary

Audit Work Program

To prepare for the audit, Staff submitted a data request for the Company's purchased gas costs, purchased volumes, customer billings, sales volumes, customer data and transportation through-put in order to review or perform recalculations of those amounts. Staff also conducted investigative interviews with appropriate Company personnel and examined related supplier invoices and spreadsheets at the Company's office in New Lexington, Ohio.

Recommendations

Unless otherwise stated in this report, Staff's review has shown that Foraker accurately calculated its GCR rates for the monthly periods that are discussed in this report. Following is a summary of the Staff's recommendations contained in Sections II through IX of this report.

- Staff recommends an actual adjustment (AA) of $802 for an under-collection and a balance adjustment (BA) of $2,326 for an over-collection.

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Section II

Introduction

Background

Foraker is a small local distribution company serving customers in southeastern Ohio. The Company was formed in October 1960 to gather local production, which was then transported to several large industrial customers engaged in the manufacturing of ceramic and tile products. Over time, the gathering lines were extended to connect to additional producers and to serve more industrial customers. In the early 1960's, Foraker connected to the Energy Cooperative, formerly National Gas & Oil Corporation, as a means to provide stand-by service in the event that local production was not sufficient to meet its system's demands.

From 1960 to 1973, Foraker's system remained relatively unchanged, except that a number of property owners that were selling production to Foraker requested taps on their lines to provide back-up as their own wells became depleted. Although Foraker installed such taps, the focus of its business remained on providing service to its industrial customers. In late 1973, several of the industrial customers began to experience financial difficulties that limited operations and reduced their gas requirements. However, additional residential and commercial customers located adjacent to Foraker's lines requested gas service and were added to Foraker's customer base. Over the years, local production continued to decline while the number of customers continued to slowly increase. In 1989, Foraker connected to Columbia Gas Transmission (TCO) to ensure that it was able to continue to serve its customers' requirements.

Initially, Foraker served its sales customers under interruptible gas service agreements at a bundled price that was intended to recover both Foraker's fixed and variable costs. The bundled rate proved to be problematic when commodity prices were volatile, so the Company ultimately filed an application with the Commission to unbundle its rates and establish a GCR rate in Case Nos. 13-1910-GA-AEC and 13-1911-GA-GCR. With the approval of the Company's application, Foraker submitted its first GCR filing in January 2014.

Operations

Foraker provided natural gas utility service to approximately 323 residential and 30 commercial customers and provided transportation service to two industrial customers, as of the end of the audit period.

Section III

Expected Gas Cost

The Staff reviewed Foraker's calculations of its Expected Gas Cost (EGC), which is the mechanism that 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 purchased volumes from each supplier by the rate that is expected to be in effect during the upcoming monthly GCR. The cost for each supplier is summed and the total is divided by twelve-months of 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 supply sources, purchase volumes, and sales volumes.

Supply Sources

Foraker's entire system supply requirements came from a combination of local Ohio production and interstate deliveries. The majority (91%) of Foraker's supply was delivered through interstate pipelines. From January 2015 through October 2016, Foraker received its interstate supplies through a Gas Supply Agreement with Constellation NewEnergy-Gas Division (Constellation). In November 2014, Foraker entered into a firm transportation agreement with TCO and, at the same time, modified its agreement with Constellation to recognize that the Company would provide the transportation service on TCO. In November 2016, Foraker entered into an agreement with Snyder Brothers Inc. to deliver nominated volumes to a point of interconnect between Foraker and TCO at a NYMEX plus price. Foraker also purchased 9% of its supplies from approximately twenty local producers.

Purchased Volumes and Sales Volumes

In Foraker's previous audit, Staff determined that there were significant differences between purchased and sales volumes during the period covered by the audit. The Company reported that these differences were primarily caused by one industrial customer's meter that read fast (i.e. registered more gas going through the meter than was actually delivered). Due to this meter malfunction, sales/special contract volumes were overstated for the audit period. Foraker replaced the malfunctioning meter in August 2015 and determined that total sales volumes for May, June, and July 2015 should be adjusted to account for the malfunctioning meter. The adjustments are accounted for in the AA section of this report.

Recommendations

Staff has no recommendations for this section.

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 by total sales for those respective months. These calculations are performed quarterly. 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 the month. The difference between each monthly unit cost and the monthly EGC, whether positive or negative, is multiplied by the respective monthly jurisdictional sales to identify the total under- or over- recovered gas costs. The monthly under- or over- recoveries are summed for the quarter 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 be the result of reporting inaccurate purchased gas costs, sales volumes, EGC rates or incorrect amounts of credits or cash-outs from transportation customers.

As discussed in Section III, Staff found significant differences in purchased and sales volumes while conducting their prior audit. The differences found in the months of May, June, and July 2015 were adjustments that Foraker documented in their records but failed to include in the quarterly filing for those months. Staff accounted for the May, June and July adjustments in its calculations, resulting in differences between Staff's AA calculations and the AA calculations filed by the Company. The differences between Staff's and the Company's calculations result in an AA adjustment of $802 as a result of the under-collection.

Recommendations

The differences between the Staff and Company AA calculations are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment of $802, for an under-collection, as shown on Table I.

Actual Adjustment Calculation

Table I

	Per Staff	Jan-15	Feb-15	Mar-15	AA	Difference
Quarter End:	Supply Cost $	$77,327	$64,032	$61,540		
	Jur. Sales MCF	7,726	8,566	5,199		
Mar-15	Total Sales MCF	28,218	29,664	22,583		
	Book Cost $/ MCF	$2.7403	$2.1586	$2.7251		
	EGC$/MCF	$3.3900	$3.0300	$3.0900		
	Diff. $/MCF	($0.6497)	($0.8714)	($0.3649)		
	Cost Diff. $	($5,020)	($7,464)	($1,897)	($14,381)	
	Per Company					
	Supply Cost $	$77,235	$63,929	$61,440		
	Jur. Sales MCF	7,726	8,566	5,199		
	Total Sales MCF	28,218	29,664	22,583		
	Book Cost $/ MCF	$2.7400	$2.1600	$2.7200		
	EGC$/MCF	$3.3900	$3.0360	$3.0900		
	Diff. $/MCF	($0.6500)	($0.8700)	($0.3700)		
	Cost Diff. $	($5,022)	($7,452)	($1,924)	($14,398)	$17

	Per Staff	Apr-15	May-15	Jun-15	AA	Difference
Quarter End:	Supply Cost $	$46,903	$22,711	$25,179		
	Jur. Sales MCF	2,324	911	562		
Jun-15	Total Sales MCF	16,329	11,246	9,305		
	Book Cost $/ MCF	$2.8724	$2.0195	$2.7060		
	EGC$/MCF	$2.7100	$2.6900	$2.8400		
	Diff. $/MCF	$0.1624	($0.6705)	($0.1340)		
	Cost Diff. $	$377	($611)	($75)	($309)	
	Per Company					
	Supply Cost $	$46,903	$22,711	$25,179		
	Jur. Sales MCF	2,324	911	562		
	Total Sales MCF	16,329	13,850	11,756		
	Book Cost $/ MCF	$2.8700	$1.6400	$2.1400		
	EGC$/MCF	$2.7100	$2.6900	$2.8400		
	Diff. $/MCF	$0.1600	($1.0500)	($0.7000)		
	Cost Diff. $	$372	($957)	($393)	($978)	$669

Actual Adjustment Calculation

Table I

	Per Staff	Jul-15	Aug-15	Sep-15	AA	Difference
Quarter End: Sep-15	Supply Cost $	$22,769	$23,163	$29,033		
	Jur. Sales MCF	468	558	555		
	Total Sales MCF	9,814	9,834	8,429		
	Book Cost $/ MCF	$2.3201	$2.3554	$3.4444		
	EGC$/MCF	$2.9400	$3.0000	$2.7700		
	Diff. $/MCF	($0.6199)	($0.6446)	$0.6744		
	Cost Diff. $	($290)	($360)	$374	($276)	
	Per Company					
	Supply Cost $	$22,769	$23,163	$29,256		
	Jur. Sales MCF	468	558	555		
	Total Sales MCF	12,457	9,834	8,429		
	Book Cost $/ MCF	$1.8300	$2.3600	$3.4700		
	EGC$/MCF	$2.9400	$3.0000	$2.7700		
	Diff. $/MCF	($1.1100)	($0.6400)	$0.7000		
	Cost Diff. $	($519)	($357)	$389	($488)	$212

	Per Staff	Oct-15	Nov-15	Dec-15	AA	Difference
Quarter End: Dec-15	Supply Cost $	$35,848	$38,174	$53,694		
	Jur. Sales MCF	1,507	2,484	4,508		
	Total Sales MCF	12,661	17,850	23,881		
	Book Cost $/ MCF	$2.8314	$2.1386	$2.2484		
	EGC$/MCF	$2.7200	$2.4200	$2.4400		
	Diff. $/MCF	$0.1114	($0.2814)	($0.1916)		
	Cost Diff. $	$168	($699)	($864)	($1,395)	
	Per Company					
	Supply Cost $	$35,811	$38,211	$53,691		
	Jur. Sales MCF	1,507	2,479	4,508		
	Total Sales MCF	12,661	17,845	23,881		
	Book Cost $/ MCF	$2.8300	$2.1400	$2.2500		
	EGC$/MCF	$2.7163	$2.4245	$2.4386		
	Diff. $/MCF	$0.1137	($0.2845)	($0.1886)		
	Cost Diff. $	$171	($705)	($850)	($1,384)	($11)

Actual Adjustment Calculation

Table I

	Per Staff	Jan-16	Feb-16	Mar-16	AA	Difference
Quarter End: Mar-16	Supply Cost $	$65,419	$57,070	$40,187		
	Jur. Sales MCF	6,964	5,955	3,387		
	Total Sales MCF	28,496	24,331	18,758		
	Book Cost $/ MCF	$2.2957	$2.3456	$2.1424		
	EGC$/MCF	$2.6200	$2.4100	$1.9929		
	Diff. $/MCF	($0.3243)	($0.0644)	$0.1495		
	Cost Diff. $	($2,258)	($384)	$506	($2,136)	
	Per Company					
	Supply Cost $	$65,419	$57,070	$40,187		
	Jur. Sales MCF	6,964	5,955	3,387		
	Total Sales MCF	28,496	24,331	18,758		
	Book Cost $/ MCF	$2.3000	$2.3500	$2.1400		
	EGC$/MCF	$2.6205	$2.4137	$1.9918		
	Diff. $/MCF	($0.3205)	($0.0637)	$0.1482		
	Cost Diff. $	($2,232)	($379)	$502	($2,109)	($27)
	Per Staff	**Apr-16**	**May-16**	**Jun-16**	**AA**	**Difference**
Quarter End: Jun-16	Supply Cost $	$24,787	$19,935	$28,104		
	Jur. Sales MCF	2,522	1,185	617		
	Total Sales MCF	15,409	10,601	8,429		
	Book Cost $/ MCF	$1.6086	$1.8805	$3.3343		
	EGC$/MCF	$2.1029	$2.2529	$2.3929		
	Diff. $/MCF	($0.4943)	($0.3724)	$0.9414		
	Cost Diff. $	($1,247)	($441)	$581	($1,107)	
	Per Company					
	Supply Cost $	$24,938	$20,303	$28,256		
	Jur. Sales MCF	2,522	1,185	617		
	Total Sales MCF	15,409	10,601	8,429		
	Book Cost $/ MCF	$1.6200	$1.9200	$3.3500		
	EGC$/MCF	$2.1031	$2.2519	$2.3894		
	Diff. $/MCF	($0.4831)	($0.3319)	$0.9606		
	Cost Diff. $	($1,218)	($393)	$593	($1,019)	($88)

Actual Adjustment Calculation

Table I

	Per Staff	Jul-16	Aug-16	Sep-16	AA	Difference
Quarter End: Sep-16	Supply Cost $	$32,359	$23,495	$30,956		
	Jur. Sales MCF	472	606	487		
	Total Sales MCF	7,919	8,723	9,723		
	Book Cost $/ MCF	$4.0863	$2.6935	$3.1838		
	EGC$/MCF	$2.9929	$2.8729	$3.0729		
	Diff. $/MCF	$1.0934	($0.1794)	$0.1109		
	Cost Diff. $	$516	($109)	$54	$461	
	Per Company					
	Supply Cost $	$32,360	$23,495	$30,956		
	Jur. Sales MCF	472	606	487		
	Total Sales MCF	7,919	8,723	9,723		
	Book Cost $/ MCF	$4.0900	$2.6900	$3.1800		
	EGC$/MCF	$2.9904	$2.8769	$3.0718		
	Diff. $/MCF	$1.0996	($0.1869)	$0.1082		
	Cost Diff. $	$519	($113)	$53	$458	$3
	Per Staff	**Oct-16**	**Nov-16**	**Dec-16**	**AA**	**Difference**
Quarter End: Dec-16	Supply Cost $	$43,591	$51,073	$89,741		
	Jur. Sales MCF	1,276	3,234	6,099		
	Total Sales MCF	11,670	16,876	25,681		
	Book Cost $/ MCF	$3.7353	$3.0264	$3.4944		
	EGC$/MCF	$3.1329	$3.0929	$3.4429		
	Diff. $/MCF	$0.6024	($0.0665)	$0.0515		
	Cost Diff. $	$769	($215)	$314	$868	
	Per Company					
	Supply Cost $	$43,591	$51,073	$89,741		
	Jur. Sales MCF	1,256	3,234	6,103		
	Total Sales MCF	11,650	16,876	25,685		
	Book Cost $/ MCF	$3.7400	$3.0300	$3.4900		
	EGC$/MCF	$3.1302	$3.0879	$3.4470		
	Diff. $/MCF	$0.6098	($0.0579)	$0.0430		
	Cost Diff. $	$766	($187)	$262	$841	$27
					Total	**$802**

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/or adjustments ordered by the Commission. Annual interest of ten percent is applied to the net jurisdictional amount of the RA, which is then divided by twelve months of historic sales volumes to develop a volumetric rate to be included in the GCR calculation for four quarters.

On January 6, 2016, the Commission ordered a reconciliation adjustment of $431 in Case No. 15-204-GA-GCR. Staff reviewed the Company's filings and found that the RA was properly filed in the next GCR following the Commission Order and properly included in rates.

Recommendations

Staff has no recommendations for this area.

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 each respective AA and RA and the sales to which those rates were applied from the dollar amounts of the respective AA or 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, which is then incorporated into the AA calculation.

Errors detected in the BA are generally the result of incorrectly reported sales volumes, or may be due to selecting an incorrect rate from a previous AA, RA, or BA calculation.

Recommendations

The differences between the Staff and Company calculations in the BA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment of $2,326 for an over-collection, as shown on Table II.

Balance Adjustment Calculation

Table II

	Per Staff	AA	RA	BA	Total BA	Difference
Year End:	Adjustment $	$0	$0	$0		
	Rate $/MCF	$0.0000	$0.0000	$0.0000		
Nov-14	Sales MCF	0	0	0		
	Recovery $	$0	$0	$0		
	Balance $	$0	$0	$0	$0	
	Per Company					
	Adjustment $	$0	$0	$0		
	Rate $/MCF	$0.0000	$0.0000	$0.0000		
	Sales MCF	0	0	0		
	Recovery $	$0	$0	$0		
	Balance $	$0	$0	$0	$0	$0

	Per Staff	AA	RA	BA	Total BA	Difference
Year End:	Adjustment $	$0	$0	$0		
	Rate $/MCF	$0.0000	$0.0000	$0.0000		
Feb-15	Sales MCF	0	0	0		
	Recovery $	$0	$0	$0		
	Balance $	$0	$0	$0	$0	
	Per Company					
	Adjustment $	$0	$0	$0		
	Rate $/MCF	$0.0000	$0.0000	$0.0000		
	Sales MCF	0	0	0		
	Recovery $	$0	$0	$0		
	Balance $	$0	$0	$0	$0	$0

Balance Adjustment Calculation

Table II

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: May-15	Adjustment $	($10,264)	$0	$0		
	Rate $/MCF	($0.2600)	$0.0000	$0.0000		
	Sales MCF	38,712	38,712	38,712		
	Recovery $	($10,059)	$0	$0		
	Balance $	($205)	$0	$0	($205)	
	Per Company					
	Adjustment $	($10,264)	$0	$0		
	Rate $/MCF	($0.2600)	$0.0000	$0.0000		
	Sales MCF	38,717	38,717	38,717		
	Recovery $	($10,066)	$0	$0		
	Balance $	($198)	$0	$0	($198)	($7)

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Aug-15	Adjustment $	($3,276)	$0	$0		
	Rate $/MCF	($0.0800)	$0.0000	$0.0000		
	Sales MCF	38,717	38,717	38,717		
	Recovery $	($3,099)	$0	$0		
	Balance $	($178)	$0	$0	($178)	
	Per Company					
	Adjustment $	($3,276)	$0	$0		
	Rate $/MCF	($0.0800)	$0.0000	$0.0000		
	Sales MCF	35,363	0	0		
	Recovery $	($2,829)	$0	$0		
	Balance $	($447)	$0	$0	($447)	$269

Balance Adjustment Calculation

Table II

	Per Staff	AA	RA	BA	Total BA	Difference
Year End:	Adjustment $	($1,586)	$0	$0		
	Rate $/MCF	($0.0400)	$0.0000	$0.0000		
Nov-15	Sales MCF	35,368	35,368	35,368		
	Recovery $	($1,464)	$0	$0		
	Balance $	($122)	$0	$0	($122)	
	Per Company					
	Adjustment $	($1,583)	$0	$0		
	Rate $/MCF	($0.0400)	$0.0000	$0.0000		
	Sales MCF	30,178	0	0		
	Recovery $	($1,207)	$0	$0		
	Balance $	($376)	$0	$0	($376)	$254

	Per Staff	AA	RA	BA	Total BA	Difference
Year End:	Adjustment $	($7,215)	$0	$0		
	Rate $/MCF	($0.1800)	$0.0000	$0.0000		
Feb-16	Sales MCF	30,183	30,183	30,183		
	Recovery $	($5,759)	$0	$0		
	Balance $	($1,456)	$0	$0	($1,456)	
	Per Company					
	Adjustment $	($4,215)	$0	$0		
	Rate $/MCF	($0.1800)	$0.0000	$0.0000		
	Sales MCF	30,705	0	0		
	Recovery $	($5,527)	$0	$0		
	Balance $	$1,312	$0	$0	$1,312	($2,768)

Balance Adjustment Calculation

Table II

		AA	RA	BA	Total BA	Difference
	Per Staff					
Year End:	**Adjustment $**	($14,398)	$0	$0		
	Rate $/MCF	($0.3700)	$0.0000	$0.0000		
May-16	**Sales MCF**	30,710	30,710	30,710		
	Recovery $	($11,342)	$0	$0		
	Balance $	($3,056)	$0	$0	($3,056)	
	Per Company					
	Adjustment $	($14,398)	$0	$0		
	Rate $/MCF	($0.3700)	$0.0000	$0.0000		
	Sales MCF	30,689	30,689	30,689		
	Recovery $	($11,355)	$0	$0		
	Balance $	($3,043)	$0	$0	($3,043)	($13)

	Per Staff	AA	RA	BA	Total BA	Difference
Year End:	**Adjustment $**	($978)	$0	$0		
	Rate $/MCF	($0.0300)	$0.0000	$0.0000		
Aug-16	**Sales MCF**	30,694	30,694	30,694		
	Recovery $	($923)	$0	$0		
	Balance $	($55)	$0	$0	($55)	
	Per Company					
	Adjustment $	($978)	$0	$0		
	Rate $/MCF	($0.0300)	$0.0000	$0.0000		
	Sales MCF	32,788	0	0		
	Recovery $	($984)	$0	$0		
	Balance $	$6	$0	$0	$6	($61)
					TOTAL	**($2,326)**

Section VII

Unaccounted-For Gas

Unaccounted-for gas (UFG) is the difference between purchased gas volumes and sales 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 performed an analysis of the UFG for the period January 2015 through December 2016. Staff calculated the system's average UFG rates by first subtracting total deliveries (volumes sold) from total receipts (volumes purchased) and then dividing the difference by total receipts. The results of the Staff's calculation are shown in Table II below.

Table II
System Average UFG Rates
(unless otherwise indicated, values in MCF)

12 Months Ended	Receipts	Deliveries	UFG	UFG (%)
December 2015	175,410	199,809	(24,399)	-12.21%
December 2016	187,182	186,600	582	0.31%

Conclusions

As noted in Section III, Staff found differences between the purchased and sales volumes associated with a malfunctioning meter. Those differences were the primary cause of the large negative UFG percentage for the first half of the audit period. During the second half of the audit period, the UFG percentage was reasonable and within limits once the meter was fixed.

Recommendation

Staff has no recommendations for this area.

Section VIII

Customer Billing

An important component of the GCR process is the proper application of GCR rates to a customer's bill. In order to determine Foraker's compliance with the billing process, Staff selected a random sampling of the Company's customer billing records, excluding special contract customers, in order to recalculate those bills. Staff compared its recalculated bills to the Company's customer billing register to determine if there were any differences. Staff also reviewed copies of customer's bills to verify that the billed amount per the Company's register matched the bills submitted to the customers. Staff only found minor rounding differences and no other exceptions.

Recommendation

Staff has no recommendations for this area.