



**Public Utilities  
Commission**

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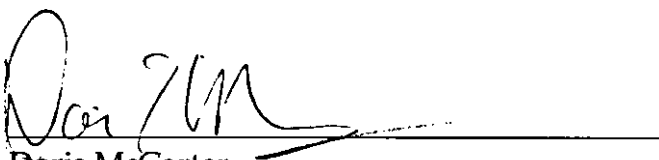
December 5, 2018

Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus OH 43215

RE: *In the Matter of the Joint Application of Brainard Gas Corp., Northeast Ohio Gas Corp.,  
Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for Approval of  
Merger and Request for Expedited Approval, Case No. 18-1484-GA-UNC, et al.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the Joint Application of Brainard Gas Corp., Northeast Ohio Gas Corp., Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for merger authority and to modify tariffs, Case Nos. 18-1484-GA-UNC and 18-1485-GA-ATA.



Doris McCarter  
Chief, Capital Recovery and Financial Analysis Division  
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Joint Application of	)	
Brainard Gas Corp., Northeast Ohio Gas	)	Case No. 18-1484-GA-UNC
Corp., Orwell Natural Gas Company, and	)	
Spelman Pipeline Holdings, LLC for	)	
Approval of Merger and Request for	)	
Expedited Approval	)	

In the Matter of the Joint Application of	)	
Brainard Gas Corp., Northeast Ohio Gas	)	Case No. 18-1485-GA-ATA
Corp., Orwell Natural Gas Company, and	)	
Spelman Pipeline Holdings, LLC for	)	
Approval of Modified Tariffs	)	

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**Staff Review and Recommendation**

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**BACKGROUND and APPLICATION DESCRIPTION**

Brainard Gas Corp. ("Brainard"), Orwell Natural Gas Company ("Orwell"), and Northeast Ohio Natural Gas Corp. ("NEO") are public utilities and natural gas companies as defined in sections 4905.02 and 4905.03(E) of the Ohio Revised Code ("R.C."), and are subject to the jurisdiction of the Public Utilities Commission of Ohio ("Commission"). Spelman Pipeline Holdings, LLC ("Spelman") is a public utility and pipeline company as defined in R.C. 4905.02 and R.C. 4905.03(F), respectively, and is subject to the jurisdiction of the Commission. Brainard is engaged in the business of providing natural gas distribution service to approximately 220 customers. Orwell is engaged in the business of providing natural gas distribution service to approximately 10,410 customers. NEO is engaged in the business of providing natural gas distribution service to approximately 18,444 customers. Spelman maintains approximately 121 miles of pipelines used to transport natural gas to the distribution networks of NEO, Orwell and Brainard.

On September 28, 2018, Brainard, Orwell, Spelman, and NEO (collectively, the "Ohio Utilities") filed an application with exhibits ("Application") with the Commission seeking an expedited approval of the proposed merger of Brainard, Orwell, and Spelman into NEO. The Ohio Utilities are all owned by the same parent company, PHC Utilities, Inc., a wholly owned subsidiary of Hearthstone Utilities Inc., which was f/k/a Gas Natural, Inc. According to the Application, NEO will be the surviving entity after merging with Brainard, Orwell, and Spelman.

Subsequent to the proposed merger, NEO will maintain separate books and records for each of the former utilities until the next distribution rate case. In addition, during the period between the proposed merger and the post-merger distribution rate case proceeding, the Ohio Utilities state that customers will not see any change in customer charges and distribution service rates as a result of the merger and will continue to be billed under their current tariff distribution service rate charges. The Ohio Utilities propose to merge all the tariffs together as detailed in the Application, but they will maintain distinct area rate charges within the newly merged tariff so that customers' bills will remain consistent with the rates currently charged. The Ohio Utilities have proposed to merge the miscellaneous charges portion of the tariffs and use the current lowest cost rate of the three distribution companies' tariffs as the new rate for all customers. The Ohio Utilities will consolidate gas costs into one calculation, and the same gas cost recovery ("GCR") charge will be assessed to all customers regardless of area.

The Ohio Utilities commit to complying with the requirements in their most recent financing case<sup>1</sup> and recent corporate merger case,<sup>2</sup> and they will report as required on an individual company basis until the conclusion of NEO's next distribution rate case proceeding. The Ohio Utilities will also continue to keep regulatory filings such as Ohio Administrative Code section 4901:1-13-05 (minimum customer service levels) separate for each former utility until the conclusion of NEO's next distribution rate case proceeding.

### **STAFF'S REVIEW and FINDINGS**

The Agreement and Plan of Merger included with the Application as Exhibit B details all the terms of the proposed transaction. Assets and liabilities will be consolidated within NEO by journal entries based upon historical costs. Since the Ohio Utilities are all affiliates with the same owner, there will not be any financial transactions required to effectuate the merger other than journal entries that will follow the standards prescribed by the Financial Accounting Standards Board Accounting Standards Codification for transactions between entities under common control.

In order to determine the reasonableness of consolidating the GCR charge, Staff calculated a combined GCR rate by utilizing the Companies' October 2018 filings. Staff first combined the expected gas costs ("EGC") of the three companies which produced a single rate of \$4.5009 per Mcf. Staff determined that the combined EGC rate would be lower than Brainard's EGC rate of \$4.6915 per Mcf and Orwell's EGC rate of \$4.5279 per Mcf but would be slightly higher than NEO's EGC rate of \$4.4866 per Mcf. The adjustment portions (i.e., Actual, Balance and Refund Adjustments) of the three companies GCRs were also combined, to come up with a single rate of (\$0.2423) per Mcf. The combined EGC rate and adjustments rate produced a combined GCR rate

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<sup>1</sup> See *In the Matter of the Joint Application of Brainard Gas Corp., Northeast Ohio Gas Corp., Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for Approval of Long Term Financing Arrangements*, Case No. 16-354-GA-AIS, Opinion and Order (Aug. 31, 2016).

<sup>2</sup> See *In the Matter of the Joint Application of Brainard Gas Corp., Northeast Ohio Gas Corp., Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for Approval of Merger with FR Bison Holdings, Inc. and FR Bison Merger Sub, Inc.*, Case No. 16-2251-GA-UNC, Finding and Order (June 21, 2017).

of \$4.2585 per Mcf.<sup>3</sup> Staff finds that the combined GCR rate would result in an overall lower rate for the three companies and would reduce their administrative and regulatory requirements. Combining the gas costs under a single company may also allow for economy of scales when purchasing gas in the market.

Staff finds the ongoing operations of the Ohio Utilities are closely related with slight overlaps, and the proposed merger of said operational functions should be relatively smooth along with the possibilities of gained efficiencies.

### **RECOMMENDATION**

Based upon Staff's review of the Application and its findings of investigation, Staff believes the request to merge the Ohio Utilities into NEO appears reasonable and recommends that the Commission approve the merger request with the following conditions:

1. NEO shall file a bill format case within thirty (30) days after a Commission Order in this case;
2. NEO will provide a notice to customers through either a letter, bill insert or bill message of the merger and its impacts to customers no later than thirty (30) days after a Commission Order in this case. NEO will work with Staff on the content of the notice prior to sending the notice to its customers;
3. NEO must offer PIPP Plus, as currently offered to NEO's customers, to all eligible customers of the other two local distribution companies as soon as practicable after a Commission Order in this case, but not later than thirty (30) days after;
4. The Commission directs NEO to continue to provide separate regulatory filings for the Ohio Utilities until the conclusion of their next distribution rate case; and
5. Staff finds that the Ohio Utilities' request, to combine gas costs into a single GCR rate, is reasonable and recommends, if adopted, that the Commission direct NEO to work with Staff on assembling a combined GCR filing.

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<sup>3</sup> Calculated by combining the EGC rate of \$4.5009 with the adjustments of (\$0.2423) to determine a total GCR rate of \$4.2585.