

## **THE PUBLIC UTILITIES COMMISSION OF OHIO**

**IN THE MATTER OF THE JOINT  
APPLICATION OF BRAINARD GAS CORP.,  
NORTHEAST OHIO NATURAL GAS CORP.,  
ORWELL NATURAL GAS COMPANY, AND  
SPELMAN PIPELINE HOLDINGS, LLC FOR  
APPROVAL OF A MERGER.**

**CASE NO. 18-1484-GA-UNC**

**IN THE MATTER OF THE JOINT  
APPLICATION OF BRAINARD GAS CORP.,  
NORTHEAST OHIO NATURAL GAS CORP.,  
ORWELL NATURAL GAS COMPANY, AND  
SPELMAN PIPELINE HOLDINGS, LLC FOR  
APPROVAL OF MODIFIED TARIFFS.**

**CASE NO. 18-1485-GA-ATA**

### **FINDING AND ORDER**

Entered in the Journal on January 3, 2019

#### **I. SUMMARY**

{¶ 1} The Commission approves the joint application filed by Brainard Gas Corp., Northeast Ohio Natural Gas Corp., Orwell Natural Gas Company, and Spelman Pipeline Holdings, LLC for a proposed merger and revised tariffs, subject to Staff's conditions.

#### **II. PROCEDURAL BACKGROUND**

{¶ 2} Pursuant to R.C. 4905.04, 4905.05, and 4905.06, the Commission is vested with the power and jurisdiction to supervise and regulate public utilities.

{¶ 3} R.C. 4909.18 provides, in part, that a public utility may file an application to establish any rate, charge, regulation, or practice. If the Commission determines that the application is not for an increase in any rate and does not appear to be unjust or unreasonable, the Commission may approve the application without the need for a hearing.

{¶ 4} Brainard Gas Corp. (Brainard), Northeast Ohio Natural Gas Corp. (NEO), and Orwell Natural Gas Company (Orwell) are natural gas companies as defined in R.C. 4905.03

and public utilities as defined in R.C. 4905.02, and, as such, are subject to the jurisdiction of this Commission.

{¶ 5} Spelman Pipeline Holdings, LLC (Spelman) is a pipeline company as defined in R.C. 4905.03 and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of the Commission.

{¶ 6} On September 28, 2018, Brainard, NEO, Orwell, and Spelman (collectively, the Ohio Utilities) filed a joint application to request an expedited approval of a proposed merger of Brainard, Orwell, and Spelman into NEO. The Ohio Utilities explained that they are all owned by the same parent company, PHC Utilities, Inc., a wholly owned subsidiary of Hearthstone Utilities Inc., fka Gas Natural, Inc. The Ohio Utilities stated that, as a result of this merger, customers will not face any increase in rates or charges or any other material changes. In fact, the Ohio Utilities stated that customers will receive a benefit through the efficiencies and economies that can be achieved through a merger. The Ohio Utilities also explained that, while they do not concede that the Commission has jurisdiction over this proposed merger, they recognized that the Commission has previously issued decisions in other merger cases to ensure that those mergers were in the public's interest.

{¶ 7} By Entry dated October 11, 2018, the attorney examiner directed interested persons to file motions to intervene by October 26, 2018; comments by November 2, 2018; and reply comments by November 13, 2018. No motions to intervene or comments were filed.

{¶ 8} On December 5, 2018, Staff filed a review and recommendation.

{¶ 9} On December 7, 2018, the Ohio Utilities filed correspondence indicating that they accept Staff's five recommended conditions.

### III. DISCUSSION

#### *A. Consideration of the Application*

{¶ 10} The Ohio Utilities state that, as a result of this merger, Brainard, Orwell, and Spelman will be merged into NEO, with the surviving corporation operating as NEO. After the merger, NEO will succeed to and possess and enjoy the rights, privileges, power, and franchises of the individual Ohio Utilities. NEO shall also become subject to all the restrictions, liabilities, duties, and obligations of the individual Ohio Utilities.

{¶ 11} During the period between the merger and the Ohio Utilities' next distribution rate case, NEO will maintain separate books and records for each former utility. Each Ohio Utility will be administratively billed consistent with past practice in order to properly account for intra-company services. The Ohio Utilities will also continue to track investment and expenses by area until rates are reset by a rate case. Each Ohio Utility will continue to comply with and report individually based on the requirements of the most recent financing case, Case No. 16-354-GA-AIS, and with the merger case of the Ohio Utilities' parent company with FR Bison Holdings, Inc., Case No. 16-2251-GA-UNC, until such reporting may be changed at the conclusion of NEO's next rate case.<sup>1</sup>

{¶ 12} As noted above, the Ohio Utilities state that customers will not face any increase in rates or charges or any other material changes. Customers in the current Brainard, Orwell, and NEO areas will continue paying the same rates after the merger. In fact, the Ohio Utilities state that any impact to customers will only be beneficial. The Ohio Utilities state that the merger will create efficiencies and economies, and customers will benefit through the availability of the Ohio Utilities' collective gas supply management, delivery, and transportation experience and expertise. The Ohio Utilities further state that the merger will facilitate administrative and regulatory efficiencies by eliminating multiple

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<sup>1</sup> On November 27, 2018, in Case No. 18-1720-GA-AIR, et al., the Ohio Utilities filed a notice of intent to file an application for an increase in rates.

regulatory filings, and as a result, the Ohio Utilities expect to focus on operational improvements and customer service, further benefiting customers. Finally, as one entity, the Ohio Utilities explain, NEO will be able to expand service to new customers in new service territories; pursue necessary system upgrades in an expeditious and streamlined manner; and provide the full advantages of the increasingly competitive natural gas market to customers.

{¶ 13} The Ohio Utilities state that they will be standardizing all customers under NEO's tariffs. All non-rate charges will be applied to customers using the lowest rate among the Ohio Utilities for those charges, thereby preventing any rate increases. Additionally, the same gas cost recovery (GCR) charge will be assessed to all customers regardless of area. Spelman's tariffs will be added to NEO's revised tariffs without any changes and Spelman will continue to bill based on its current tariffs until the Commission rules on the use of its system and recovery of its costs in the next rate case.

{¶ 14} The Ohio Utilities request an expedited approval of this application. The Ohio Utilities state that the Commission does not have jurisdiction over this merger, but have filed this application to prevent disagreement over jurisdictional issues from delaying the proposed merger. The Ohio Utilities further request that the Commission approve the application without a hearing as the proposed merger will not affect customers' service rates and will not adversely affect service or reliability for customers.

#### ***B. Staff Review and Recommendation***

{¶ 15} Staff states that 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.

{¶ 16} Staff reports that it calculated a combined GCR rate by utilizing the October 2018 filings for NEO, Orwell, and Brainard to determine the reasonableness of consolidating the GCR charge. Staff first combined the expected gas costs (EGC) of the three companies, which produced a single rate of \$4.5009 per thousand cubic feet (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' GCR rates were also combined, to come up with a single rate of (\$0.2423) per Mcf. By adding the EGC rate to the adjustment rate, Staff calculated a combined GCR rate of approximately \$4.2585 per Mcf. Staff finds that the combined GCR rate would result in an overall lower rate for the three companies. Staff notes that combining the gas costs under a single company may also allow for economies of scale 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.

{¶ 17} Staff believes the request to merge Brainard, Orwell, and Spelman 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 30 days after a Commission order in these cases;
2. NEO shall provide a notice to customers of the merger and its impacts to customers through either a letter, bill insert, or bill message no later than 30 days after a Commission order in these cases. NEO shall work with Staff on the content of the notice prior to sending the notice to its customers;

3. NEO must offer the Percentage of Income Payment Plan 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 these cases, but not later than 30 days after;
4. The Commission should direct NEO to continue to provide separate regulatory filings for the Ohio Utilities until the conclusion of their next distribution rate case; and
5. The Commission should direct NEO to work with Staff on assembling a combined GCR filing.

### *C. Commission Conclusion*

{¶ 18} The Commission finds that it has an interest in the merger being proposed in the Ohio Utilities' application. R.C. 4905.04 through 4905.06 provide that the Commission has general supervision over public utilities within its jurisdiction and the responsibility to be apprised of the manner in which their properties are operated, managed, and conducted with respect to the adequacy of service or security of the public. The Ohio Utilities are public utilities subject to the jurisdiction of this Commission, and the Commission maintains an interest in the operations and in the ability of the Ohio Utilities to serve the public interest. Moreover, the Commission has a long history of reviewing proposed mergers of Ohio utilities to ensure that such transactions are in the public interest. *See, e.g., In re The East Ohio Gas Co. and West Ohio Gas Co.*, Case No. 96-991-GA-UNC, Finding and Order (Dec. 19, 1996); *In re Ohio Power Co. and Columbus Southern Power Co.*, Case No. 10-2376-EL-UNC, Entry (Mar. 7, 2012). Consequently, the Commission will assert jurisdiction over this application seeking approval of a merger.

{¶ 19} Upon review of the Ohio Utilities' application, the Commission adopts Staff's recommendations regarding the merger request. We find that the proposed merger of

Brainard, Orwell, and Spelman into NEO is in the public interest and that the merger request should be approved, subject to Staff's conditions. As the Ohio Utilities' application notes, any impacts stemming from the proposed merger are projected to be beneficial to customers, due to resulting efficiencies created from economies of scale. Further, we note that, based on its analysis, Staff anticipates that the combined GCR rate for Brainard, Orwell, and NEO will result in an overall lower rate for the three companies and reduce their regulatory filings. In addition, we find that the request for tariff approval is an application not for an increase in rates and does not appear to be unjust or unreasonable and should, therefore, also be approved. The revised tariffs will establish separate Brainard, Orwell, and NEO area rates, such that customers in each area will continue to pay their current rates, while all non-rate charges will be applied to customers using the lowest charge among the Ohio Utilities. With this approach, no customer is expected to experience a rate increase. Finally, consistent with R.C. 4909.18, the Commission finds that no hearing is required in these cases.

#### IV. ORDER

{¶ 20} It is, therefore,

{¶ 21} ORDERED, That the Ohio Utilities' application for a merger and tariff amendments be approved, subject to Staff's conditions. It is, further,

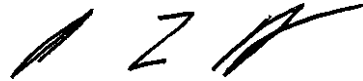
{¶ 22} ORDERED, That the Ohio Utilities be authorized to file tariffs, in final form, consistent with this Finding and Order. The Ohio Utilities shall file one copy in these case dockets and one copy in their TRF dockets. It is, further,

{¶ 23} ORDERED, That the effective date of the new tariffs shall be a date not earlier than the date upon which the final tariff pages are filed with the Commission. It is, further,

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

{¶ 25} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO



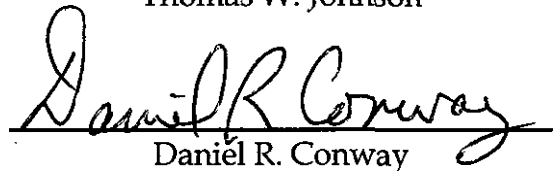
Asim Z. Haque, Chairman



M. Beth Trombold



Thomas W. Johnson

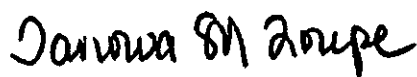


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Entered in the Journal  
JAN - 3 2019



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