

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Northeast Ohio)	
Natural Gas Corp. for an Increase in Gas)	Case No. 18-1720-GA-AIR
Distribution Rates)	
)	
In the Matter of the Application of Northeast Ohio)	Case No. 18-1721-GA-ATA
Natural Gas Corp. for Tariff Approval)	
)	
In the Matter of the Application of Northeast Ohio)	Case No. 18-1722-GA-ALT
Natural Gas Corp. for Approval of Alternative)	
Regulation)	

STIPULATION AND RECOMMENDATION

I. INTRODUCTION

Pursuant to Ohio Adm. Code 4901-1-30, any two or more parties to a proceeding before the Public Utilities Commission of Ohio (“Commission”) may enter into a written stipulation concerning the proposed resolution of some or all of the issues in the proceeding. This Stipulation and Recommendation (“Stipulation”) sets forth the understanding of Northeast Ohio Natural Gas Corp. (“NEO” or the “Company”) and the Commission Staff¹ (“Staff”), each of whom is a Signatory Party, and together constitute the Signatory Parties.² The Signatory Parties recommend that the Commission approve and adopt, as part of its Opinion and Order, this Stipulation that resolves all of the issues in the above-captioned proceedings.

This Stipulation represents a just and reasonable resolution of the issues raised in these proceedings, violates no regulatory principle or precedent, and is the product of lengthy, serious bargaining among knowledgeable and capable parties representing a wide range of interests to

¹ Pursuant to Ohio Adm. Code 4901-1-10(C), Staff is considered a party to this proceeding.

² The Office of the Ohio Consumers’ Counsel and Ohio Partners for Affordable Energy are not Signatory Parties but each agrees to not oppose the Stipulation.

resolve the aforementioned issues. The Stipulation is supported by adequate data and information and, as a package, benefits customers and the public interest. Although this Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission. For purposes of resolving all issues raised by these proceedings, the Signatory Parties stipulate, agree, and recommend as set forth below.

II. RECITALS

WHEREAS, on November 27, 2018, NEO filed its Notice of Intent to File an Application for an Increase in Rates, and its Notice of Intent to File an Application for an Alternative Rate Plan. On November 29, 2018, NEO filed a Motion to Establish a Test Period and Date Certain and for a Waiver of Certain Filing Requirements. In the Motion for Test Period, NEO requested a test period of the 12 months ending on June 30, 2019, and a date certain of September 30, 2018;

WHEREAS, on December 12, 2018, the Commission adopted NEO's requested test period and date certain and granted NEO's request for waiver of certain filing requirements;

WHEREAS, on December 28, 2018, NEO filed its Application to Increase Rates and Charges ("Application"). On January 11, 2019, NEO filed direct testimony in support of its Application;

WHEREAS, on February 20, 2019, the Commission accepted NEO's Application as of the December 28, 2018 filing date;

WHEREAS, on June 25, 2019, Staff filed the Staff Report, and objections to the Staff Report were filed on July 25, 2019 by the parties;

WHEREAS, the Stipulation is the result of serious discussion and compromise of complex issues and involves substantial benefits that would not otherwise have been achievable, and is not

intended to reflect the views or proposals which any individual party may have advanced in litigation or otherwise acting unilaterally; and

WHEREAS, the Signatory Parties understand and agree that the Stipulation is not binding upon the Commission. The Stipulation is, however, supported by the information provided herewith, is the result of the Signatory Parties' desire to arrive at a reasoned and reasonable result that fairly incorporates the law, facts, and circumstances involved in this proceeding. Thus, the Signatory Parties recommend that the Commission carefully consider this Stipulation.

NOW, THEREFORE, in order to resolve all of the issues raised in this proceeding, the Signatory Parties stipulate, agree, and recommend that the Commission issue an Opinion and Order in this proceeding accepting and adopting this Stipulation without modification.

III. JOINT RECOMMENDATION OF THE PARTIES

A. Staff Report

1. The Signatory Parties agree that the Commission should adopt the findings and recommendations of the Staff Report, except as otherwise agreed in this Stipulation.

B. Rate of Return

1. The Signatory Parties agree and recommend that the Commission determine NEO's capital structure to be 64.47 percent equity and 35.53 percent long-term debt and approve a return on equity (ROE) of 10.0 percent until such time as new rates are effective with a new ROE as authorized by the Commission in the Company's next base rate case.

2. The Signatory Parties agree and recommend, based on the ROE of 10.0 percent, that NEO's overall rate of return shall be 8.12 percent and that such overall rate of return on rate base be established as fair and reasonable.

C. Rates

1. The Signatory Parties agree that, in lieu of the Staff Report’s recommendation to reclassify General Service (“GS”) customers that use less than 200 Mcf to Small General Service (“SGS”) customers, NEO will create two subclasses for GS customers. The first subclass, GS-2, will include all customers currently taking service under the GS rate who had an annual usage of 200 Mcf or more during the test period. The second subclass, GS-1, will include those customers currently taking service under the GS rate with an annual usage less than 200 Mcf during the test period and mitigate their increase by charging a lower customer charge than the GS-2. Specifically, the monthly customer charge for GS-1 customers will be reduced from \$100/month to \$50/month. NEO will recover the difference in revenue from GS-1 customers associated with this change through a higher volumetric charge across all GS volumes. In addition, GS-1 will become available to all new nonresidential customers anticipated to use less than 200 Mcf annually and SGS will continue to serve existing SGS customers and any new residential customers.

D. Tariffs

1. The Signatory Parties agree to the Tariff updates replacing references to “Ohio law” with the specific Ohio Administrative Code Sections, as set forth in the Staff Report, except as modified herein:

- a. Original Sheet No. 17, Section IV, No. 12, 2nd paragraph, replaces “Ohio law” with “O.A.C. 4901:1-18-06.”
- b. Original Sheet No. 21, Section V, No. 20, 2nd sentence, replaces “Ohio law” with “O.A.C. 4901:1-18-05.”

2. The Signatory Parties agree and accept the Company's updates to Original Sheet No. 15, Section IV, No. 10, which now requires both a 14-day and 10-day notice requirement in accordance with Ohio Administrative Code 4901:1-18-08(A).

3. The Signatory Parties agree and accept the Company's updates to Original Sheet Nos. 25 and 26, Section VI, No. 31, which removes the Company's ability to collect attorneys' fees relating to a customer, landlord, property manager, or owner's failure to grant access to premises, without a judicial award of such attorneys' fees.

E. Rate Base

1. The Signatory Parties agree with the calculations regarding Rate Base, as set forth in the Staff Report, except as modified herein.

2. Plant In Service.

a. The Signatory Parties agree that \$426,710 shall be added back to plant in service balance, which represents certain assets from the purchase of Orwell and Brainard, and consists of the following adjustments to the Staff Report:

- i. Addition of \$9,097 to Account 374 Land & Land Rights;
- ii. Addition of \$353,617 to Account 376 Mains-Distribution;
- iii. Addition of \$5,695 to Account 378 Measuring & Regulating Equipment – General;
- iv. Addition of \$16,703 to Account 380 Services;
- v. Addition of \$32,988 to Account 381 Meters; and
- vi. Addition of \$8,610 to Account 383 House Regulators.

b. The Signatory Parties agree that \$36,002 shall be added back to plant in service balance, which represents assets that were not available during the time of

inspection, but are now fully operational and able to be inspected, and consists of the following adjustments:

- i. Addition of \$31,307 to Account 392 Transportation Equipment; and
 - ii. Addition of \$4,695 to Account 394 Tools, Shop & Garage Equipment.
- c. The Signatory Parties agree that \$71,828 shall be added back to plant in service balance, which represents the cost of two vehicles that were assets used and useful as of the date certain for this rate application, and consists of the following adjustments:
- i. Addition of \$36,250 to Account 392 Transportation Equipment; and
 - ii. Addition of \$35,578 to Account 392 Transportation Equipment.

3. **Reserve for Accumulated Depreciation.**

- a. The Signatory Parties agree that \$333,995 shall be added back to the reserve for accumulated depreciation balance, which represents certain assets from the purchase of Orwell and Brainard, and consists of the following adjustments to the Staff Report:
- i. Addition of \$8,753 to Account 374 Land & Land Rights;
 - ii. Addition of \$269,761 to Account 376 Mains-Distribution;
 - iii. Addition of \$5,695 to Account 378 Measuring & Regulating Equipment – General;
 - iv. Addition of \$16,424 to Account 380 Services;
 - v. Addition of \$27,693 to Account 381 Meters; and
 - vi. Addition of \$5,669 to Account 383 House Regulators.

- b. The Signatory Parties agree that \$33,110 shall be added back to the reserve for accumulated depreciation balance, which represents assets that were not available during the time of inspection, but are now fully operational and able to be inspected, and consists of the following adjustments:
 - i. Addition of \$26,611 to Account 392 Transportation Equipment; and
 - ii. Addition of \$1,804 to Account 394 Tools, Shop & Garage Equipment.
 - c. The Signatory Parties agree that \$71,828 shall be added back to the reserve for accumulated depreciation balance, which represents the cost of two vehicles that were assets used and useful as of the date certain for this rate application, and consists of the following adjustments:
 - i. Addition of \$36,250 to Account 392 Transportation Equipment; and
 - ii. Addition of \$35,578 to Account 392 Transportation Equipment.
4. The Signatory Parties agree that Staff's adjustments on Schedule B-3 did not agree with those on Schedule B-3.1. Schedule B-3.1 is correct and so the parties agree that accumulated depreciation should be reduced by \$232,344.
- a. Reduction of \$205,335 to account 379 Measuring & Regulating Station Equipment
- City Gas Check Stations
 - b. Reduction of \$1,299 to account 382 Meter Installations
 - c. Reduction of \$25,710 to account 387 Other Equipment
5. **Working Capital.** The Signatory Parties agree to an adjustment to increase the working capital allowance component of rate base by \$100,116, which represents the corresponding adjustment required due to the Company's adjustments to operating and

maintenance expense, income taxes, and rate base, bringing the working capital component of rate base to \$2,030,261.

F. Revenue Requirement

1. The Signatory Parties agree to a revenue increase in the amount of \$159,378 to depreciation expense, which causes the total adjustment for depreciation expense to be (\$321,085).

2. The Signatory Parties agree to a revenue increase in the amount of \$699,386 to reflect the elimination of the amortization of theoretical reserve imbalance.

3. The Signatory Parties agree to an increase of \$308,797 to Staff's recommended adjustment of (\$429,856) to the test year for labor expenses, which causes the adjustment to the test year to be (\$121,059).

4. The Signatory Parties agree to an increase of \$48,042 to Staff's recommended adjustment to Hearthstone Services expenses, which causes the shared service expense of \$2,031 in the Staff Report to increase to \$50,073.

5. The Signatory Parties agree that the property tax expense needs an additional \$8,295, to reflect updates to Staff's property tax schedules for the Company's recommended adjustments to plant in service.

6. The Signatory Parties agree to a reduction in the amount of \$258,576 to Staff's recommended adjustments to income taxes.

7. Summarizing all of the above, the Signatory Parties agree to rate base of \$46,320,957 and a total revenue requirement including gas costs of \$37,904,664. Gas costs are agreed to at \$20,270,207 for a base revenue requirement of \$17,634,457.

IV. PROCEDURAL MATTERS

1. This Stipulation addresses a variety of complex issues that, absent this agreement, would have been resolved through complex, protracted, and expensive litigation. This Stipulation contains the entire agreement among the Signatory Parties and reflects a complete settlement of all proposals, issues, comments, and objections in this proceeding. The Signatory Parties will support this Stipulation, if it is contested, and no Signatory Party shall oppose an application for rehearing designed to defend the terms of the Stipulation. The Signatory Parties agree that this Stipulation advances the public interest and urge the Commission to adopt it.

2. Except for purposes of enforcing the Stipulation or establishing that its terms and conditions are lawful, neither the Stipulation nor the information and data contained therein or attached hereto shall be cited as precedent in any proceeding for or against a Signatory Party, if the Commission approves this Stipulation. The Stipulation is submitted for the purpose of resolving only the proceeding identified herein and does not reflect the position that any individual Signatory Party may take as to any individual provision of the Stipulation, standing alone. Rather, the Stipulation reflects a compromise and balancing of competing interests and does not reflect the position that any one of the Signatory Parties would have taken on any individual issue. As such, acceptance of any provision within this Stipulation shall not be cited by any party or the Commission in any forum to state or imply that any Signatory Party agrees with any specific provision of the settlement.

3. This Settlement is conditioned upon adoption of the Settlement by the Commission in its entirety and without material modification. Each Signatory Party has the right, in its sole discretion, to determine whether the Commission's approval of this Settlement constitutes a "material modification" thereof. If the Commission rejects or materially modifies all or any part

of this Settlement, any Signatory Party shall have the right to apply for rehearing. If the Commission does not adopt the Settlement without material modification upon rehearing, or if the Commission makes a material modification to any Order adopting the Settlement pursuant to any reversal, vacation and/or remand by the Supreme Court of Ohio, then within thirty (30) days of the Commission's Entry on Rehearing or Order on Remand any Signatory Party may withdraw from the Settlement by filing a notice with the Commission ("Notice of Withdrawal"). No Signatory Party shall file a Notice of Withdrawal without first negotiating in good faith with the other Signatory Parties to achieve an outcome that substantially satisfies the intent of the Settlement. If a new agreement achieves such an outcome, the Signatory Parties will file the new agreement for Commission review and approval. If the discussions to achieve an outcome that substantially satisfies the intent of the Settlement are unsuccessful, and a Signatory Party files a Notice of Withdrawal, then the Commission will convene an evidentiary hearing to afford that Signatory Party the opportunity to contest the Settlement. If the discussions to achieve an outcome that substantially satisfies the intent of the Settlement are successful, then some or all of the Signatory Parties shall submit the amended Settlement to the Commission for approval after a hearing if necessary.

4. Unless a Signatory Party exercises its right to withdraw from the Stipulation and terminate its status as a Signatory Party, each Signatory Party agrees to and will support the reasonableness of the Stipulation before the Commission, and to cause its counsel to do the same, and in any appeal from the Commission's adoption or enforcement of the Stipulation in which it participates.

5. The Signatory Parties agree that the settlement and resulting Stipulation are a product of serious bargaining among capable, knowledgeable parties. This Stipulation is the

product of an open process in which all parties were represented by able counsel and technical experts. The Stipulation represents a comprehensive compromise of issues raised by parties with diverse interests. The Signatory Parties believe that the Stipulation that they are recommending for Commission adoption presents a fair and reasonable result. The Signatory Parties acknowledge that the costs approved herein result from settlement discussion and do not reflect any agreement with individual objections raised by the parties or the Staff Report.

6. The Signatory Parties agree that the settlement, as a package, benefits NEO's customers and is in the public interest. The Signatory Parties agree that the settlement package does not violate any important regulatory principle or practice.

IN WITNESS THEREOF, the undersigned Signatory Parties agree to this Stipulation as of this 5th day of September, 2019. The undersigned Signatory Parties respectfully request the Commission issue its Opinion and Order approving and adopting this Stipulation.

STIPULATING PARTIES:

On Behalf of Northeast Ohio Natural
Gas Corp.:

On Behalf of Staff of the Public Utilities
Commission of Ohio:

/s/ N. Trevor Alexander
N. Trevor Alexander
Steven D. Lesser
Mark T. Keaney
CALFEE, HALTER & GRISWOLD LLP
1200 Huntington Center
41 South High Street
Columbus, Ohio 43215

/s/ Werner L. Margard
Werner L. Margard
Principal Assistant Attorney General
30 E. Broad Street, 16th Floor
Columbus, Ohio 43215

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Summary: Stipulation electronically filed by Mr. Mark T Keaney on behalf of Northeast Ohio Natural Gas Corp.