THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE REGULATION OF THE PURCHASED GAS ADJUSTMENT CLAUSE CONTAINED WITHIN THE RATE SCHEDULES OF PIEDMONT GAS COMPANY AND RELATED MATTERS.	**CASE NO. 20-213-GA-GCR**
IN THE MATTER OF THE UNCOLLECTIBLE EXPENSE RIDER OF PIEDMONT GAS COMPANY AND RELATED MATTERS.	**CASE NO. 20-313-GA-UEX**

OPINION AND ORDER

Entered in the Journal on September 9, 2020

I. SUMMARY

{¶ 1} The Commission approves and adopts a Stipulation and Recommendation that resolves all issues relating to the gas cost recovery and uncollectible expense audits of Piedmont Gas Company.

II. PROCEDURAL BACKGROUND

{¶ 2} Piedmont Gas Company (Piedmont or Company) is a natural gas company as defined in R.C. 4905.03 and a public utility under R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission. Piedmont is also a natural gas company within the meaning of R.C. 4905.302(C), pursuant to which this Commission promulgated rules for a uniform purchased gas adjustment clause to be included in the schedules of gas or natural gas companies subject to the Commission's jurisdiction. These rules, which are contained in Ohio Adm.Code Chapter 4901:1-14, separate the jurisdictional cost of gas from all other costs incurred by a gas or natural gas company and provide for each company's recovery of these costs.

{¶ 3} R.C. 4905.302 also directs the Commission to establish investigative procedures, including periodic reports, audits, and hearings; to examine the arithmetic and accounting accuracy of the gas costs reflected in a company's gas cost recovery (GCR) rates; and to review each company's production and purchasing policies and their effect upon these rates. Pursuant to such authority, the Commission adopted Ohio Adm.Code 4901:1-14-07, which identifies how periodic financial audits of gas or natural gas companies shall be conducted. Ohio Adm.Code 4901:1-14-08(A) requires the Commission to hold a public hearing at least 60 days after the filing of each required audit report. Ohio Adm.Code 4901:1-14-08(C) specifies that notice of the hearing be published in one of three ways, at least 15 days, but not more than 30 days, prior to the date of the scheduled hearing.

{¶ 4} On October 15, 2010, the Commission approved an uncollectible expense (UEX) mechanism set at $0.02385 per thousand cubic feet (Mcf) for Piedmont. *In re Piedmont Gas Co.*, Case No. 09-1862-GA-AIR, Opinion and Order (Oct. 15, 2010).

{¶ 5} On January 29, 2020, the Commission initiated these proceedings, established the financial and UEX audit periods, established the date upon which the financial and UEX audit reports must be filed, and directed Staff to conduct the audits. The Commission also scheduled a hearing for June 30, 2020, and directed Piedmont to publish notice.

{¶ 6} On March 9, 2020, the governor signed Executive Order 2020-01D (Executive Order), declaring a state of emergency in Ohio to protect the well-being of Ohioans from the dangerous effects of COVID-19. As described in the Executive Order, state agencies are required to implement procedures consistent with recommendations from the Department of Health to prevent or alleviate the public health threat associated with COVID-19. Additionally, all citizens are urged to heed the advice of the Department of Health regarding this public health emergency in order to protect their health and safety. The Executive Order was effective immediately and will remain in effect until the COVID-19 emergency no longer exists. The Department of Health is making COVID-19 information, including information on preventative measures, available via the internet at coronavirus.ohio.gov/.

{¶ 7} On April 23, 2020, Staff filed its audit reports in the captioned cases for the designated audit periods. The audit reports include the financial audit report for Piedmont's GCR mechanism (Commission-Ordered Ex. 1) and the audit report for

Piedmont's UEX mechanism (Commission-Ordered Ex. 2). The GCR audit was for the period December 1, 2017, to November 30, 2019. The UEX audit was for the period January 1, 2018, to December 31, 2019.

{¶ 8} On June 9, 2020, the attorney examiner issued an Entry to reschedule the hearing to occur on August 13, 2020.

{¶ 9} By Entry dated July 8, 2020, the attorney examiner directed that, due to the continued state of emergency, and given the passage of Am. Sub. H.B. 197, the hearing would be conducted through Webex, which would enable the parties and interested persons to participate by telephone and/or video on the internet. Interested members of the public that wished to provide testimony were directed to register with the Commission before 12:00 p.m. on August 12, 2020, by phone or internet. No members of the public registered to testify at the hearing.

{¶ 10} In the July 8, 2020 Entry, Piedmont was directed to provide notice of the hearing, including instructions regarding registration for public testimony. On July 30, 2020, Piedmont filed its proof of publication of notice of the hearing (Co. Ex. 1).

{¶ 11} On August 7, 2020, Piedmont and Staff filed a Stipulation and Recommendation (Stipulation) that would resolve all issues in these dockets (Jt. Ex. 1).

{¶ 12} On August 13, 2020, the public hearing was conducted through Webex.

III. DISCUSSION

A. GCR Audit

{¶ 13} Piedmont provides natural gas utility service to approximately 2,120 customers. Of these customers, 1,862 are residential, 245 are commercial, and 13 are industrial sales customers. Piedmont also provides transportation service to 17 customers. Piedmont's service territory is comprised of Coshocton, Guernsey, Harrison, Holmes, and Tuscarawas counties. (Commission-Ordered Ex. 1 at 4.)

1. Expected Gas Cost

{¶ 14} In its GCR audit report, Staff reviewed Piedmont's calculations of its expected gas cost (EGC) for the audit period. The EGC mechanism attempts to match future gas revenues for the upcoming quarter with the anticipated cost to procure gas supplies. It is calculated by extending 12-month historical purchase volumes from each supplier by the rate that is expected to be in effect during the upcoming period. The cost for each supplier is summed and the total is divided by 12-month historical sales to develop an EGC rate to be applied to customer bills. (Commission-Ordered Ex. 1 at 5.)

{¶ 15} In Staff's review of the Company's EGC calculations, it considered purchase volumes and sales volumes. Staff noted that Piedmont's system supply requirements come from ten local producers, and two suppliers, The East Ohio Gas Company d/b/a Dominion Energy Ohio, and Columbia Gas Transmission. (Commission-Ordered Ex. 1 at 5.)

{¶ 16} In its review of purchase and sales volumes, Staff verified that Piedmont purchased 540,309 Mcf of gas from the local producers and gas suppliers during the first year of the audit and purchased 534,864 Mcf of gas during the second year of the audit. Several discrepancies were found between Staff's calculation of purchased volumes and the Company's posted volumes in its actual adjustment (AA) filings for several months of the audit period, resulting in an overall decrease of ($16,602)[1] in the Company's purchased gas costs. Staff has accounted for the differences in purchased volumes and costs in its AA calculations. (Commission-Ordered Ex. 1 at 5.)

{¶ 17} In sales volumes, Staff verified that Piedmont sold 547,140 Mcf of gas to its customers during the first year of the audit and 548,475 Mcf during the second year of the audit period with small differences over the course of the audit period, resulting in an overall decrease of 415 Mcf. Staff recommends that Piedmont confirm its purchased and

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[1] Numbers in parentheses indicate negative numbers.

sales volumes prior to making its monthly GCR filings with the Commission. (Commission-Ordered Ex. 1 at 5.)

2. ACTUAL ADJUSTMENT

{¶ 18} The 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 of the three-month reporting quarter by total sales for those respective months. 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. The unit book cost for each month is compared with the EGC rate, which was billed for that quarter. The difference between each monthly unit cost and the EGC, whether positive or negative, is multiplied by the respective monthly jurisdictional sales to identify the total under- or over-recoveries of gas costs. The monthly under- or over-recoveries are summed and divided by the 12-month historic jurisdictional sales to develop an AA rate to be included in the GCR for four quarters. Errors in the AA calculation can result from incorrectly reported purchase gas costs, errors in the stated sales volumes, and the use of the wrong EGC rate. (Commission-Ordered Ex. 1 at 6.)

{¶ 19} Staff reviewed the applicable purchase invoices and monthly billing registers and found material differences for several months over the course of the audit period, resulting in a decrease of purchased gas costs of ($16,095) for the audit period. These differences flow through the AA over the course of the audit period and resulted in a net adjustment of ($10,321) for an over-collection. These errors are not self-correcting through the GCR mechanism. Staff recommends that the Commission order a reconciliation adjustment (RA) of ($10,321) for an over-collection be applied in the first GCR filing following the Opinion and Order in these cases. (Commission-Ordered Ex. 1 at 6.)

3. Refund and Reconciliation Adjustment

{¶ 20} Staff noted that Piedmont has interstate and local distribution company gas supplies, but has had no refunds from suppliers or interstate pipelines during the audit period (Commission-Ordered Ex. 1 at 11).

{¶ 21} Staff adds that, as a result of the Commission's Opinion and Order in Piedmont's last GCR audit proceeding, the Commission ordered Piedmont to implement an RA of ($33,397.91) to address the differences between Staff's and the Company's AA and balance adjustment (BA) calculations. *In re Piedmont Gas Co.*, Case No. 18-213-GA-GCR, et al., Opinion and Order (August 8, 2018). Staff found that the RA of ($33,937.91) was properly implemented, including interest. Staff also noted that it has no recommendations at this time. (Commission-Ordered Ex. 1 at 11.)

4. Balance Adjustment

{¶ 22} The BA mechanism corrects for under-recoveries or over-recoveries of previously calculated AAs and RAs. 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 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. (Commission-Ordered Ex. 1 at 12.)

{¶ 23} Errors detected in the BA are generally the result of incorrectly reported sales volumes, but also may be due to selecting an incorrect AA or RA rate for the purpose of calculating a given quarter's BA. In this instance, Piedmont did not file any BA information with the Commission during the audit period; therefore, Staff was unable to compare its BA calculation to Piedmont's, resulting in a larger than normal over- or under-adjustment of

($31,663). Because the differences found by Staff are not self-correcting through the GCR mechanism, Staff recommends an RA of ($31,663) for an over-collection be applied to Piedmont's GCR rates. The adjustment should be applied in the first GCR filing following the Opinion and Order in these cases. Staff notes that, in the prior audit in Case No. 18-213-GA-GCR, the Commission ordered Piedmont to work with Staff to file BAs which will appear as part of Piedmont's GCR filings. Staff is working with Piedmont to effectuate this order and will follow up with Piedmont going forward to ensure that Piedmont completes the BA for GCR filings. (Commission-Ordered Ex. 1 at 12.)

5. Unaccounted-For Gas

{¶ 24} Unaccounted-for gas (UFG) is the difference between gas purchase volumes and sale volumes. It is calculated on a 12-month basis, ending in one of the low usage summer months to minimize the effects of unbilled volumes on the calculation. Ohio Adm.Code 4901:1-14-08(F)(3) specifies that the Commission may adjust a company's future GCR rates as a result of UFG above a reasonable level, presumed to be no more than five percent for the audit period. (Commission-Ordered Ex. 1 at 17.)

{¶ 25} Staff performed an analysis of the UFG for the 12-month periods ending November 2017 and November 2019. Staff used the total sales volume deliveries divided by the total purchase volume receipts to arrive at the system's average UFG rates. On Piedmont's system, transportation customers' purchases are equal to transportation customers' sales. These volumes are excluded from the UFG calculation. (Commission-Ordered Ex. 1 at 17.)

{¶ 26} Staff's report reveals a negative UFG level, indicating a difference in the temperature compensated sales meters and the non-temperature compensated purchase meters. Staff states that the temperature compensated meters tend to be more accurate, regardless of temperature changes. Staff states that it has no recommendations regarding UFG. (Commission-Ordered Ex. 1 at 17.)

6. Customer Billing

{¶ 27} An important component of the GCR process is the proper application of the GCR rates to customer bills. Staff reviewed Piedmont's customer billing records in order to determine whether Piedmont properly applied its GCR and base rates during the audit period. Using a random sampling, Staff selected customers from Piedmont's monthly billing registers and recalculated their bills. Staff then compared the recalculated bills to the customer billing register to determine if there were any differences. Staff found an exception in January 2019, where Piedmont's billing system billed the prior month's GCR rate, resulting in customers being incorrectly billed for the month. Staff has accounted for these errors in its AA calculation. Staff has no recommendations concerning customer billing. (Commission-Ordered Ex. 1 at 18.)

B. UEX Audit

{¶ 28} In its UEX audit report, Staff notes that it had initiated its audit by issuing data requests to Piedmont. In response, Piedmont provided the billing histories of all customers with accounts that had been written off during the audit period. The data from those billing histories showed that 48 accounts totaling $13,537.35 were written off and $3,384.03 was recovered from previously written-off accounts. (Commission-Ordered Ex. 2 at 2.)

{¶ 29} Staff states that it relied upon the Company's billing histories to recalculate the write-offs for 2018 and 2019. Staff confirmed that most of Piedmont's write-off amounts, except one, were correctly applied to the UEX rider during the audit period. The one exception found by Staff was corrected in the Annual Balance Reconciliation. (Commission-Ordered Ex. 2 at 3.)

{¶ 30} Staff also calculated the rider revenue for the audit period by multiplying Piedmont's approved UEX rider rate by the sales volumes verified by Staff in its audit of the Company's GCR mechanism. Staff found several minor differences in the amount collected through the UEX rider when compared to the Company's calculation. (Commission-Ordered Ex. 2 at 3.)

{¶ 31} Staff concludes that the amounts written-off and revenues collected through Piedmont's rider were accurate, except for some minor differences in write-off amounts (i.e., $17.45 difference), and monthly rider revenue collections (i.e., $156.73 difference). Staff included in its calculations the amounts that were verified as written-off and the calculated rider revenues. (Commission-Ordered Exhibit 2 at 3.)

{¶ 32} Staff recommends that the Commission order Piedmont to adopt Staff's recalculated annual balance reconciliations for 2018 and 2019 and adjust the ending balance as of December 31, 2019, to ($6,999.20) (Commission-Ordered Ex. 2 at 3).

IV. STIPULATION OF THE PARTIES

{¶ 33} On August 7, 2020, Staff and Piedmont filed a Stipulation that, if adopted, would resolve all of the issues in the proceedings. The following is a summary of the Stipulation and does not supersede or replace the Stipulation.

{¶ 34} Regarding the financial audit of the GCR mechanism, the Stipulation adopts Staff's recommendation for an RA of ($10,321.00) for an over-collection to correct for the differences identified in the AA. The Stipulation also adopts Staff's recommendation for an RA of ($31,663.00) for an over-collection to correct for differences identified in the BA. Both adjustments should be applied in the first GCR filing following the Opinion and Order. In addition, the Stipulation adopts Staff's recommendation that Piedmont work with Staff going forward to file BAs on Schedule 4 of its future GCR filings. (Jt. Ex. 1 at 4-5.)

{¶ 35} Concerning the UEX audit, Piedmont agrees that all findings and recommendations contained in the audit report are reasonable and should be adopted by the Commission. Specifically, the Stipulation adopts Staff's recommendations that the

Commission order Piedmont to adopt Staff's recalculated annual BAs for 2018 and 2019 and adjust the ending balance as of December 31, 2019, to ($6,999.20). (Jt. Ex. 1 at 5.)

V. Conclusion

{¶ 36} Ohio Adm.Code 4901-1-30 authorizes parties to Commission proceedings to enter into a stipulation. Although not binding on the Commission, the terms of such an agreement are afforded substantial weight. *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 125, 592 N.E.2d 1370 (1992), *citing Akron v. Pub. Util. Comm.*, 55 Ohio St.2d 155, 157, 378 N.E.2d 480 (1978). This concept is particularly valid where the stipulation is unopposed by any party and resolves all issues presented in the proceeding in which it is offered.

{¶ 37} The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. *See, e.g.*, *In re Cincinnati Gas & Elec. Co.*, Case No. 91-410-EL-AIR, Order on Remand (Apr. 14, 1994); *In re Western Reserve Telephone Co.*, Case No. 93-230-TP-ALT, Opinion and Order (Mar. 30, 1994); *In re Ohio Edison Co.*, Case No. 91-698-EL-FOR, et al., Opinion and Order (Dec. 30, 1993); *In re Cleveland Elec. Illum. Co.*, Case No. 88-170-EL-AIR, Opinion and Order (Jan. 31, 1989); *In re Restatement of Accounts and Records*, Case No. 84-1187-EL-UNC, Opinion and Order (Nov. 26, 1985). The ultimate issue for our consideration is whether the agreement, which embodies considerable time and effort by the signatory parties, is reasonable and should be adopted. In considering the reasonableness of a stipulation, the Commission has used the following criteria:

(1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?

(2) Does the settlement, as a package, benefit ratepayers and the public interest?

(3) Does the settlement package violate any important regulatory principle or practice?

{¶ 38} The Ohio Supreme Court has endorsed the Commission's analysis using these criteria to resolve issues in a manner economical to ratepayers and public utilities. *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.*, 68 Ohio St.3d 559, 629 N.E.2d 423 (1994), *citing Consumers' Counsel* at 126. The Court stated in that case that the Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission.

{¶ 39} During the August 13, 2020 public hearing, Staff introduced the Stipulation as Joint Exhibit 1. In addition, Staff offered the testimony of Tornain Matthews to support the Stipulation. Mr. Matthews confirmed that the Stipulation presented in these cases is the product of serious bargaining among capable, knowledgeable parties; that it benefits ratepayers and is in the public interest; and that it does not violate any important regulatory principle or practice. (Tr. at 10-13.)

{¶ 40} Based on our three-pronged standard of review, we find that the first criterion, that the process involved serious bargaining by knowledgeable, capable parties, is clearly met for the Stipulation. Piedmont and Staff have been involved in many cases before the Commission, including a number of GCR and UEX cases. Moreover, these parties have consistently provided helpful information to the Commission in cases regarding GCR and fuel-related policies and practices, UEX cases, and other Commission proceedings. The Stipulation also meets the second criterion. As a package, the Stipulation advances the public interest by attempting to resolve all of the issues related to the review of Piedmont's GCR and fuel-related policies and practices, as well as UEX issues, during the audit period. Mr. Matthews testified that, except for the recommendations contained in the Stipulation, the audits determined that Piedmont accurately calculated its GCR and UEX rates and applied those rates to customer bills. Moreover, the Stipulation meets the third criterion because it does not violate any important regulatory principle or practice. (Tr. at 10-13.) Accordingly, we find that the Stipulation should be adopted and approved.

VI. Findings of Fact and Conclusions of Law

{¶ 41} Piedmont is a natural gas company within the meaning of R.C. 4905.03, and, as such, is a public utility subject to the supervision and jurisdiction of this Commission.

{¶ 42} R.C. 4905.302, together with Ohio Adm.Code 4901:1-14-07, requires the Commission to review the purchased gas adjustment clause contained within the tariffs of each gas and natural gas company on an annual basis, unless otherwise ordered by the Commission.

{¶ 43} On January 29, 2020, the Commission initiated these proceedings, established the financial and UEX audit periods, established the date upon which the financial and UEX audit reports must be filed, and directed Staff to conduct the financial and UEX audits. The Commission scheduled a hearing for June 30, 2020.

{¶ 44} On April 23, 2020, Staff filed a GCR audit report and a UEX audit report.

{¶ 45} By Entries dated June 9, 2020, and July 8, 2020, the hearing was rescheduled to occur through Webex on August 13, 2020.

{¶ 46} On August 7, 2020, the parties filed a Stipulation resolving all issues in these proceedings.

{¶ 47} At the August 13, 2020 hearing, the parties submitted a Stipulation that resolves all GCR and UEX issues. The Stipulation is reasonable, meets the criteria used by the Commission to evaluate stipulations, and should be adopted.

{¶ 48} Except as noted in the financial audit report, the Stipulation, and this Order, Piedmont accurately determined its GCR rate for the audit period and applied the GCR rate to customer bills in accordance with the financial and procedural aspects of Ohio Adm.Code

Chapter 4901:1-14. Accordingly, the gas costs passed through Piedmont's GCR rate for the audit period were fair, just, and reasonable, except as noted in this decision.

{¶ 49} Piedmont accurately calculated its UEX rider rate during the UEX audit period, except to the extent noted in the audit report, the Stipulation, and this decision.

VII. ORDER

{¶ 50} It is, therefore,

{¶ 51} ORDERED, That the Stipulation of the parties be approved and adopted. It is, further,

{¶ 52} ORDERED, That the auditor that conducts the Company's next financial and UEX audits shall evaluate how the Company implemented the agreements set forth in the Stipulation and the directives set forth in this Opinion and Order. It is, further,

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

{¶ 54} ORDERED, That a copy of this Opinion and Order be served upon each party and interested person of record.

COMMISSIONERS:
Approving:
Sam Randazzo, Chairman
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

JML/hac