

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Regulation of the Pur-)
chased Gas Adjustment Clause Contained) Case No. 99-215-GA-GCR
Within the Rate Schedules of Eastern)
Natural Gas Company and Related Matters.)

In the Matter of the Regulation of the Pur-)
chased Gas Adjustment Clause Contained) Case No. 99-216-GA-GCR
Within the Rate Schedules of Pike Natural)
Gas Company and Related Matters.)

OPINION AND ORDER

The Commission, having considered the exhibits, and stipulations filed by the Staff of the Commission (Staff) and parties, the relevant provisions of the Revised Code and the Ohio Administrative Code, and being otherwise fully advised, hereby issues its Opinion and Order.

APPEARANCES:

McNees, Wallace & Nurick, by Samuel C. Randazzo and Kimberly J. Wile, 21 East State Street, Suite 1700, Columbus, Ohio 43215-4228, and Gretchen J. Hummel, 2330 Brookwood Road, Columbus, Ohio, 43209, on behalf of Eastern Natural Gas Company and Pike Natural Gas Company.

Betty Montgomery, Attorney General of the State of Ohio, by Robert A. Abrams and Steven T. Nourse, Assistant Attorneys General, 180 East Broad Street, Columbus, Ohio 43215-0573, on behalf of the Staff of the Public Utilities Commission of Ohio.

SUMMARY OF THE PROCEEDINGS:

Eastern Natural Gas Company (ENG) and Pike Natural Gas Company (PNG) (Collectively referred to as the companies) are gas companies and natural gas companies as defined by Section 4905.03(A)(5) and (6), Revised Code, and are public utilities as defined by Section 4905.02, Revised Code. Each company is also a gas company within the meaning of Section 4905.302(C), Revised Code.

ENG and PNG are wholly owned subsidiaries of Clearfield Ohio Holdings, Inc. (COHI) headquartered in Frazeyburg, Ohio. Management has consolidated the gas supply functions of each of these subsidiaries under the responsibility of the same personnel at its headquarters.

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ENG's service territory is made up of three non-contiguous regions located in northeastern Ohio, along the Pennsylvania border, in Ashtabula and Trumbull counties. M&B Industrial Gas Development Corporation (M&B), also a wholly owned subsidiary of COHI, supplies all of ENG's gas. National Fuel Gas Supply, East Ohio Gas Company, Columbia Gas Transmission, and Tennessee Gas Pipeline Company transported these supplies. In addition to other supplies of gas, M&B purchased a minor amount of gas for the Eastern system from three local producers.

PNG's territory lies in southwestern Ohio and includes portions of Highland, Clinton, Pike, Ross, and Jackson counties. PNG's system includes two non-contiguous segments, the Hillsboro Division (serving Highland and Clinton counties), and the Waverly Division (serving the remainder of PNG's customers). Columbia Gas Transmission Corporation supplies the Hillsboro Division; Tennessee Gas Pipeline Company, the Waverly Division.

Pursuant to Section 4905.302(C), Revised Code, 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 Chapter 4901:1-14, Ohio Administrative Code (O.A.C.), separate the jurisdictional cost of gas from all other costs incurred by a gas or natural gas company, and provide for a separate review of these gas costs.

Section 4905.302, Revised Code, 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 determine their effect upon these rates. Pursuant to this authority, the Commission adopted Rule 4901:1-14-07, O.A.C., which requires each gas or natural gas company to undergo periodic financial and management/performance audits. Section 4905.302(C), Revised Code, and Rule 4901:1-14-08(A), O.A.C., require the Commission to hold a public hearing at least 30 days after the filing of each required audit report; and Rule 4901:1-14-08(C), O.A.C., specifies that notice of hearing should be published and the manner in which that notice must be published.

By Entry dated March 11, 1999, the Commission initiated its review of the companies' GCR rates in Cases No. 99-215-GA-GCR (Eastern) and 99-216-GA-GCR (Pike). In the same Entry, the Commission scheduled these proceedings for a hearing to be conducted on August 31, 1999; established the audit review periods and dates for filing of the audit reports; and directed the Company to publish notice of hearing. The Attorney Examiner called the hearing on August 31, 1999 and, at the request of Staff and the companies, continued the hearing to October 13, 1999 in order to permit Eastern to remedy its failure to publish the required legal notice in a timely fashion.

Staff filed its financial audit report and certificate of accountability regarding the gas cost recovery mechanism of Eastern Natural Gas Company on August 23, 1999 and the financial audit report and certificate of accountability regarding the gas cost recovery mechanism of Pike Natural Gas Company on September 3, 1999 (Comm. Ord. Exh. 1 and Comm. Ord. Exh. 2, respectively).

On October 12, 1999, the companies filed proof that notice of both GCR hearings was published as directed by the Commission. On October 13, 1999, the Attorney Examiner convened the hearing. At the hearing, Staff and the companies filed a Stipulation and Recommendation (stipulation) in these cases which, if adopted, would resolve all the issues in these proceedings.

Rule 4901-1-30, O.A.C., permits stipulations of the type presented here. While this Commission is never bound by a stipulation, we believe such agreements between parties to be entitled to careful consideration. See, e.g., The Cincinnati Gas and Electric Company, Case No. 76-302-EL-AIR, Opinion and Order dated May 4, 1999. After reviewing the stipulation and the evidence of record, this Commission concludes that the terms of the stipulation represent a reasonable resolution of the issues in these cases. Therefore, we adopt the stipulation in its entirety.

SUMMARY OF THE EVIDENCE:

A. Eastern Natural Gas Company--Case No. 99-215-GA-GCR--Financial Audit

Staff and the Company recommend in the stipulation offered in this case that the Commission adopt the findings and recommendations contained in the financial audit report of ENG submitted on August 23, 1999. In the financial audit report, Staff certified that it examined ENG's quarterly filings which support that Company's GCR rates for the three-month periods ended August 31, 1997, November 30, 1997, February 28, 1998, May 31, 1998, August 31, 1998, November 30, 1998, February 28, 1999, and May 31, 1999, and found that, except for those instances noted in the Memorandum of Findings, the Company fairly determined its GCR rates for those periods according to the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, O.A.C. and the Commission's Entry in Case No. 97-215-GA-GCR. In its Memorandum of Findings, Staff recommended that Eastern:

- (1) make a net Reconciliation Adjustment of \$103,461 in the customers' favor. This recommendation results from a Staff analysis of the Company's Actual Adjustment calculation. The \$103,461 adjustment is the result of a number of errors the Company made in calculating its Actual Adjustment. The largest of these errors, \$100,447, occurred because the Company inadvertently included storage injection costs as a positive rather than a negative amount;

- (2) recover an additional \$32.56 representing the net difference in Staff's calculation of the Company's Balance Adjustment and the same adjustment as calculated by the Company; and
- (3) apprise Staff on a continuing basis of how the Company intends to manage its gas procurement function prior to the final selection of its supplier. In the stipulation Staff and ENG also set forth the criteria the Company will use to procure and manage its gas supply.

The signatory parties also recommend that the Commission find that Eastern fairly determined the GCR rates for the effective 24-month period ended May 31, 1999 in accordance with the financial procedural aspects of Chapter 4901:1-14, O.A.C., and related appendices and the Commission's order in Case No. 97-215-GA-GCR. Finally, Staff and the Company recommend that the Commission find that the Company has properly applied its GCR rates to its customers' bills.

The Commission finds the recommendations contained in the stipulation to be reasonable under the circumstances of this case and will adopt them as suggested by Staff and the Company.

B. Pike Natural Gas Company--Case No. 99-216-GA-GCR--Financial Audit

The Staff and the Company recommend in the stipulation offered in this case that the Commission adopt the findings and recommendations contained in the financial audit report of PNG filed on September 3, 1999. In the financial audit report, Staff certified that it examined PNG's quarterly filings which support that Company's GCR rates for the three-month periods ended July 31, 1997, October 31, 1997, January 31, 1998, April 30, 1998, July 31, 1998, October 31, 1998, January 31, 1999, and April 30, 1999; and found that, except for those instances noted in the Memorandum of Findings, the Company fairly determined its GCR rates for those periods according to the financial procedural aspects of Chapter 4901:1-14, O.A.C., appendices related to that Chapter, and the Commission's Entry in Case No. 97-216-GA-GCR. In its Memorandum of Findings, Staff recommended that:

- (1) the Company make a net reconciliation adjustment of \$128.00 in favor of its Waverly customers. This recommendation results from a Staff analysis of the Company's Actual Adjustment calculation with regard to the GCR for the Waverly Division. Staff noted errors in these calculations which are not self-correcting;

- (2) the Company make a net reconciliation adjustment in its own favor of \$727.00. This recommendation results from a Staff analysis of the Company's Actual Adjustment calculation with regard to the GCR for the Hillsboro Division. Staff noted errors in these calculations which are not self-correcting; and
- (3) apprise Staff on a continuing basis of how the Company intends to manage its gas procurement function prior to the final selection of its supplier. In the stipulation Staff and PNG also set forth the criteria the Company will use to procure and manage its gas supply.

The signatory parties also recommend that the Commission find that Pike accurately determined the GCR rates for the effective 24-month period ended April 30, 1999 in accordance with the financial procedural aspects of Chapter 4901:1-14, O.A.C., appendices related to that Chapter, and the Commission's order in Case No. 97-216-GA-GCR. Finally, Staff and the Company recommend that the Commission find that the Company has properly applied its GCR rates to its customers' bills.

The Commission finds these recommendations to be reasonable under the circumstances of this case and will adopt them as suggested by Staff and the Company.

FINDINGS OF FACT AND CONCLUSIONS OF LAW:

- (1) Eastern Natural Gas Company and Pike Natural Gas Company are gas companies and natural gas companies within the meaning of Section 4905.03(A)(5) and (6), Revised Code, and, as such, are public utilities subject to the supervision and jurisdiction of this Commission.
- (2) Pursuant to Section 4905.302, Revised Code, and Rule 4901:1-14-08, O.A.C., the Commission initiated this review of the Company's gas cost recovery rates by Entry dated March 13, 1999.
- (3) Commission Staff performed a financial audit in Case No. 99-215-GA-GCR of the quarterly filings which support ENG's gas cost recovery rates for the three-month periods ended August 31, 1997, November 30, 1997, February 28, 1998, May 31, 1998, August 31, 1998, November 30, 1998, February 28, 1999, and May 31, 1999; and has found that ENG has accurately calculated its GCR rates for those periods in accordance with the financial procedural aspects of Chapter

4901:1-14, O.A.C. Similarly, Commission Staff performed a financial audit in Case No. 99-216-GA-GCR of the quarterly filings which support PNG's gas cost recovery rates for the three-month periods ended August 31, 1997, November 30, 1997, February 28, 1998, May 31, 1998, August 31, 1998, November 30, 1998, February 28, 1999, and May 31, 1999; and has found that PNG has fairly determined its GCR rates for those periods in accordance with the financial procedural aspects of Chapter 4901:1-14, O.A.C. Staff filed its report and certificate of accountability in these cases on August 23, 1999 and September 3, 1999, respectively.

- (4) By Entry issued March 11, 1999, the Commission scheduled these cases for hearing to be held on August 31, 1999. The Attorney Examiner called the hearing on August 31, 1999 and, at the request of Staff and the companies, continued the hearing to October 13, 1999. Notice of hearing was published pursuant to Sections 4905.302(C), Revised Code, and 4901:1-14-08(C), O.A.C.
- (5) The Commission conducted the hearing in these cases on October 13, 1999.
- (6) At the hearing, Staff and the companies filed a Stipulation and Recommendation which, if adopted, would resolve all of the issues in these cases.
- (7) As stated in the stipulation, both ENG and PNG, except as noted in the audit reports, have fairly determined their respective GCR rates for the audit period in accordance with the provisions of Section 4901:1-14, O.A.C., and related appendices, and properly applied the GCR rates to customer bills during the audit period. Accordingly, the gas costs passed through each of the company's respective GCR clause for the audit period were fair, just, and reasonable.
- (8) On the basis of the evidence of record, the gas purchasing policies and practices of both ENG and PNG during the audit period were just and reasonable.
- (9) The Stipulation and Recommendation submitted by Staff and the companies in these cases is reasonable and should be adopted in its entirety


It is, therefore,

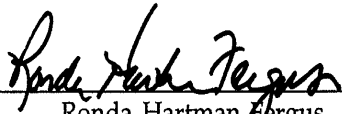
ORDERED, That the Stipulation and Recommendation submitted by Staff and the companies be adopted in its entirety. It is, further,

ORDERED, That Eastern Natural Gas Company and Pike Natural Gas Company comply with all requirements set forth in the Stipulation and Recommendation, and in this Opinion and Order. It is, further,

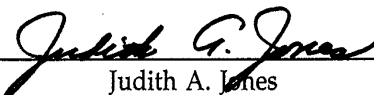
ORDERED, That a copy of this Opinion and Order be served upon each party of record.

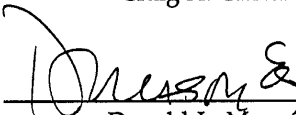
THE PUBLIC UTILITIES COMMISSION OF OHIO


Alan R. Schriber, Chairman


Ronda Hartman Fergus

Craig A. Glazer

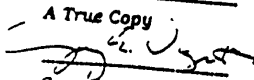

Judith A. Jones


Donald L. Mason

SJD/vrh

Entered in the Journal
OCT 28 1999

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Gary E. Vigorito
Secretary

SERVICE NOTICE

PAGE 1

CASE NUMBER 99-215-GA-GCR
CASE DESCRIPTION EASTERN NATURAL GAS COMPANY
DOCUMENT SIGNED ON October 28, 1999
DATE OF SERVICE October 29, 1999

PERSONS SERVED

PARTIES OF RECORD

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