

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Regulation of the )  
Purchased Gas Adjustment Clause )  
Contained Within the Rate Schedules ) Case No. 96-218-GA-GCR  
of The Cincinnati Gas and Electric )  
Company and Related Matters )

OPINION AND ORDER

The Commission, having considered the exhibits, the testimony presented at the hearing, the relevant provisions of the Revised Code and the Ohio Administrative Code, and being otherwise fully advised, hereby issues its Opinion and Order.

APPEARANCES:

G. James Van Heyde, Cinergy Corporation, National City Plaza, 155 East Broad Street, 21st Floor, Columbus, Ohio 43215, on behalf of The Cincinnati Gas & Electric Company.

Betty D. Montgomery, Attorney General of the State of Ohio, by Jodi Bair, Assistant Attorney General, 180 East Broad Street, Columbus, Ohio 43215-0573, on behalf of the Staff of the Public Utilities Commission of Ohio.

Robert Tongren, Ohio Consumer's Counsel, by Werner Margard and Thomas J. O'Brien, Assistant Consumers' Counsel, 77 South High Street, 15th Floor, Columbus Ohio, 43266-0550, on behalf of the residential customers of The Cincinnati Gas & Electric Company.

SUMMARY OF THE PROCEEDINGS:

The Cincinnati Gas & Electric Company (CG&E, Company) is both a "gas company" and "natural gas company" as defined in Section 4905.03 (A)(5) and (6), Revised Code, and is a public utility under Section 4905.02, Revised Code. CG&E is, therefore, a gas company within the meaning of Section 4905.302(C), Revised Code. Pursuant to that section, 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 the Company's gas cost

recovery (GCR) rates; and to review each Company's production and purchasing policies to determine their effect upon these rates. Pursuant to such 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.

The Commission initiated its review of CG&E's GCR rates in Case No. 96-218-GA-GCR by the issuance of an Entry February 8, 1996, which scheduled the case for a hearing to be conducted on November 5, 1996, established the audit review periods and dates for filing the audit report, and directed the Company to publish notice of hearing.

Arthur Andersen filed its financial audit report and certificate of accountability regarding the gas cost recovery mechanism of The Cincinnati Gas & Electric Company on October 4, 1996 (Comm. Ord. Exh. 1).

The Office of Ohio Consumers' Counsel (OCC) intervened as a party in this proceeding. The evidentiary hearing in this case was held on November 5, 1996. The Company provided proof at the hearing that notice of the hearing was published in this case as required by Commission Entry and applicable statutes (CG&E Exh. 1).

#### SUMMARY OF THE EVIDENCE:

##### I. FINANCIAL AUDIT REPORT:

In its financial audit report, Arthur Andersen certified that it has examined the Company's quarterly filings which support the Company's GCR rates for the three-month periods ended November 30, 1995, February 29, 1996, May 31, 1996, and August 31, 1996; and has found that CG&E fairly determined its GCR rates for those periods in accordance with the financial procedural aspects of Chapter 4901:1-14, O.A.C., and properly applied these rates to customer bills (Comm. Ord. Exh. 1, certificate of accountability). In addition, the financial auditor made a number of findings and recommendations:

##### (A) Directives from Case No. 95-218-GA-GCR

In its April 4, 1996 Opinion and Order in Case No. 95-218-GA-GCR, the Commission adopted the Stipulation and Recommendation filed by the Company and Staff. In the Stipulation and Recommendation, the Company and Staff agreed that the Company would make the following adjustments in the GCR filing effective December 1, 1995:

- (1) Increase the Actual Adjustment by \$254,916 in order to reflect the proper allocation of take-or-pay costs between GCR and transportation customers.
- (2) Decrease the Actual Adjustment by \$1,185,850 in order to reflect an understatement of its Reconciliation Adjustment due to the improper recording of costs associated with gas purchases ultimately resold to remarketers as gas supply costs.
- (3) Increase the Reconciliation Adjustment by \$80,102 to reflect an improper classification of a supplier refund as a take-or-pay refund.

According to the Financial Auditor's report, the Company properly included these adjustments in its GCR filing effective December 1, 1995.

(B) Revisions to GCR Rates as Filed

In its February 8, 1996, Entry in this case, the Commission requested that the Financial Auditor review "the Company's compliance with any and all applications granted pertinent to the audit period for revisions to its filed Gas Cost Recovery rates." For GCR rates effective during the audit period, the Company made one application to revise previously filed GCR rates. The Commission granted this application.

Arthur Andersen reviewed the application and determined that the Company has complied with the Commission's directives in the application. The Financial Auditor also reviewed the Company's records that support this revision and found that the revision was properly included in the Company's GCR rates.

(C) Columbia Gas Transmission Refund

The Company received a refund from Columbia Gas Transmission Corp. (Columbia) in the amount of \$3,471,001 dated November 28, 1995. The Company treated this refund as a supplier refund to be passed back entirely to the GCR customers. Subsequently, Columbia sent the Company information separating components of the refund as follows:

Take-or-Pay Refunds	\$5,254,792
FERC Order 636 transition costs	(389,417)
Other gas costs per bankruptcy settlement	<u>(1,394,374)</u>
Net Refund	\$3,471,001

In its report, the Financial Auditor states that the Company planned to assign 13 percent of the Take-or-Pay refund portion \$683,123 and 13 percent of the FERC Order 636 transition costs (\$50,624) to transportation customers. This allocation represents the historical

relationship of transportation customers to GCR customers. In order to reflect the refund share due to transportation customers, the Company planned to decrease the reconciliation adjustment included in the GCR filing effective December 1, 1996, by \$632,499.

(D) Actual Adjustment Calculation - GCR Filing Effective December 1, 1995

The Financial Auditor found that the gas supply costs the Company recorded to the Actual Adjustment included in the GCR filing effective December 1, 1995, (\$7,576,164 -- month of July 1995), did not agree with the corresponding amount appearing in the general ledger and supported by underlying accounting records (\$7,035,757). Except for the possibility of clerical errors, the Company was unable to identify the cause of this difference. The Financial Auditor notes that the Company planned to include an adjustment to decrease gas supply costs by \$540,407 in its GCR filing effective December 1, 1996, to rectify the error.

(E) Actual Adjustment Calculation-GCR Filing Effective September 1, 1996

The Financial Auditor noted that the Company overstated gas supply costs for the Actual Adjustment included in the GCR filing effective September 1, 1996, by \$22,079. According to the Financial Auditor, the Company planned to correct this error by decreasing the Actual Adjustment included in its GCR filing effective December 1, 1996.

(F) Firm Transportation Program

On October 1, 1996, CG&E began equalizing the cost of transporting gas on interstate pipelines for jurisdictional and firm transportation (FT) customers. This equalization reflects the differences between the Company's weighted average cost of transporting gas on interstate pipelines for its entire system and the FT supplier cost for the interstate pipeline capacity assigned to the FT supplier by the Company. Because of a clerical oversight, the Company excluded the settle-up amounts from the Actual Adjustment calculation for the period October 1, 1995, through April 30, 1996. The Financial Auditor reports that CG&E planned to correct this matter in the GCR filing effective December 1, 1996, by increasing the Actual Adjustment to reflect the settle-up amounts of \$109,731.

(G) Reconciliation Controls

The Financial Auditor noted several instances during the audit period where CG&E incorrectly recorded the amortization of the Reconciliation Adjustment, Actual Adjustment, and Balance Adjustment to the general ledger. The Financial Auditor also noted that the Company did not consistently perform timely reconciliations during the audit period of the amortization between the GCR filings and the underlying accounting records. The audit report states that these errors did not have any impact on the GCR filings effective during the audit period. According to the Financial Auditor, the Company has formed a reconciliation team, including representatives of the Rate, Gas

Supply, Corporate Accounting, and Internal Audit Departments to provide a timely review and reconciliation of all appropriate gas accounts prior to each GCR filing date, beginning with the GCR effective December 1, 1996.

At the hearing, counsel for Commission Staff and counsel for the Company stated that the entities they represent had no objection to the report of the Financial Auditor. Counsel for OCC stated that the Ohio Consumers' Counsel's only objection to the audit report related to the issue of balancing services provided by the Company on behalf of interruptible transportation (IT) customers. We find the findings and recommendations of the auditor to be reasonable and we will, therefore, adopt them. We direct the financial auditor that conducts the financial audit for the Company's next GCR proceeding to review the Company's actions regarding the items discussed, above, and to report any recommendations they have to the Commission.

## II. OTHER ISSUES:

OCC is concerned that the Company is subsidizing IT customers by using facilities supplied by GCR customers to accommodate IT customers' imbalances. The issue regarding the IT tariff and customer imbalances are before the Commission in Case No. 95-656-GA-AIR. It is premature to make determinations regarding this issue as it applies to GCR matters until the Commission has had an opportunity to fully review the matter in the context of that case. The Staff notes that the Company agreed in a 1995 GCR stipulation adopted by the Commission "to pursue the establishment of a daily balancing charge and cash-out provision to be applied to transportation customers as a result of imbalances and costs associated therewith" The Company also agreed that it would provide a written report to the Staff and to OCC at the time of the financial audit in this case. That report would detail all costs incurred on the behalf of IT customers for balancing services during the audit period. *The Cincinnati Gas & Electric Company*, Case No. 95-218-GA-GCR (Opinion and Order dated April 4, 1996, at 11). The Company has as yet to provide this report. Staff believes the Company has the mechanisms in place to collect, retrieve, and manipulate the data to create the report. According to the Company, it cannot prepare the report until the balancing issues before the Commission in Case No. 95-656-GA-AIR are resolved. According to CG&E, it will remain outside the Company's control to produce a report until the Commission defines what costs should be included in an interruptible balancing service. The Company on brief recommits itself to providing the report in a timely manner as soon as the Commission makes its determinations in Case No. 95-656-GA-AIR.

We believe the Company's response to be reasonable. the issues raised by OCC and Staff, at least initially, are more appropriately before the Commission in Case No. 95-656-GA-AIR. Those GCR issues remaining after we resolve the IT tariff issues in that case, we will review in the Company's next GCR proceeding.

FINDINGS OF FACT AND CONCLUSIONS OF LAW:

- (1) The Cincinnati Gas & Electric Company is a gas company and a natural gas company within the meaning of Section 4905.03(A)(5) and (6), Revised Code, and, as such, is a public utility subject to the supervision and jurisdiction of this Commission.
- (2) By Entry dated January 26, 1996, the Commission initiated a review of the Company's gas cost recovery rates, pursuant to Section 4905.302, Revised Code, and Rule 4901:1-14-08, O.A.C.
- (3) Arthur Andersen performed a financial audit of the quarterly filings which support the Company's GCR rates for the effective three-month periods ended November 30, 1995, February 29, 1996, May 31, 1996, and August 31, 1996. The Financial Auditor filed its report and certificate of accountability on October 4, 1996.
- (4) The hearing was conducted on November 5, 1996. Notice of hearing was duly published pursuant to Sections 4905.302(C) and 4935.04(D)(3), Revised Code, and Rules 4901:1-14-08, O.A.C., and 4901:1-14-08(C), O.A.C.
- (5) The Company fairly determined its 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 such GCR rates to customer bills during the audit period.

It is, therefore,

ORDERED, That The Cincinnati Gas & Electric Company comply with all requirements set forth in this Opinion and Order. It is, further,

ORDERED, That the next Financial Auditor perform the review specified 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

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Craig A. Glazer, Chairman

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Jolynn Barry Butler

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Ronda Hartman Fergus

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David W. Johnson

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Judith A. Jones

SJD/vrh