Request for Proposal (RFP)

Issued by
Office of the Ohio Consumers' Counsel (OCC)
10 West Broad Street, Suite 1800
Columbus, Ohio 43215

Analysis of Investigative Audit

RFP Number: 2015-11
Issued: April 10, 2015

REQUEST FOR PROPOSAL
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Attachments:

A. Affirmation and Disclosure Form Executive Order 2011-12K
B. Exhibit A, Terms and Conditions of OCC's Contract
C. Relevant information from the public, General Investigation Report by Rehmann in PUCO case No. 14-205-GA-COI.

PART ONE: EXECUTIVE SUMMARY

Purpose. This is a Request for Proposal ("RFP") issued by the Office of the Ohio Consumers' Counsel ("OCC") to solicit bids from Independent Contractors for technical assistance to review, analyze and follow up on recommendations where necessary of the investigative audit performed by Rehmann Corporate Investigative Services ("Rehmann") for the Public Utility Commission of Ohio ("PUCO") in Case No. 14-205-GA-COI. The investigative audit of Northeast Ohio Natural Gas Corporation ("Northeast"), Orwell Natural Gas ("Orwell"), and Brainard Gas Corporations ("Brainard") (collectively referred to as "Companies") and all of their Ohio affiliates and related entities was undertaken at the direction of the PUCO. The audit focused on several areas, including the gas purchasing policies and procedures, gas supply management and retention, internal controls within the companies, corporate and management structure and related party transactions.

Previous GCR Audits. On November 13, 2013, the PUCO issued an Opinion and Order in In re Northeast Ohio Natural Gas Company, and Orwell Natural Gas Company, Case Nos. 12-209-GA-GCR et al. In the Opinion and Order, the PUCO adopted Staff's recommendations with regard to the uncollectible expense and gas costs recovery ("GCR") audits for Northeast and Orwell, disallowed certain fees for non-processed gas and premium gas and premium payments to an affiliate, and found that Northeast and Orwell failed to demonstrate that their purchasing policies and procedures were fair, just, and reasonable or that they resulted in minimum gas prices. The PUCO also found that Northeast's and Orwell's request for proposal ("RFP") for the purchase of gas was flawed in design and implementation and the PUCO directed Northeast and Orwell to implement a new RFP for the purchase of gas under the supervision of Staff. In addition, the PUCO found that Orwell provided residential transportation service without proper tariff authority in violation of R.C. 4905.54, and that Northeast and Orwell failed to terminate contracts, as previously ordered by the PUCO in violation of R.C. 4905.30 and 4905.32. Northeast and Orwell were then directed to pay civil forfeitures. Finally, the PUCO found that the evidence demonstrated that there were sufficient legitimate concerns related to the management structure, personnel responsibilities, and decisions and practices of and between Northeast and Orwell and their affiliates, as well as allegations regarding manipulation of GCR filings, all of which warranted an investigative audit be undertaken of the Companies, as well as all affiliates and related companies ("Affiliates").

Current Investigative Audit. Accordingly, on April 2, 2014 in Case No. 14-205-GA-COI, the PUCO requested an investigative audit ("Audit") to investigate the following areas: corporate separation and management structure, internal regulatory and financial controls, compensation system, gas purchasing transactions and practices related GCR calculations, and financial and accounting statements filed with regulatory agencies. To assist the PUCO with the audit, the PUCO directed Staff to issue an RFP for audit services. All costs associated with the Audit were borne by the Companies, and the Companies were not permitted to pass the costs of the Audit on to their customers. The proposals received in response to RFP No. U14-IA-1 was evaluated and, after consideration of those proposals, the PUCO, on May 21, 2014 selected Rehmann Corporate Investigative Services, LLC (Rehmann) to perform the audit.

On January 23, 2015, Rehmann filed the results of its audit. Relevant information from the audit is attached to this RFP.

The executive Summary included the following:

Our audit focused on several unique areas, including the calculation of the gas cost recovery rate ("GCR"), gas supply management and retention, internal controls within the companies, corporate and management structure, and related party transactions.

In order to proceed with the audit in the most organized and effective manner, Rehmann CIS provided Utility personnel with a detailed list of documents well prior to the anticipated start date for on-site review of June 21, 2014. In order to adhere to the audit plan, specific due dates were aligned with the requested documents. From inception, due dates were missed and documents were incomplete. Despite our repeated reminders, many documents needed to complete our audit were not provided; this directly impacted our ability to audit some areas. Schedules provided by the Utilities have been marked as "confidential," schedules prepared by Rehmann CIS or documents that were prepared by the Utilities but were publically available were not marked as "confidential."

During our audit, we noted numerous instances where erroneous data was included in the GCR calculations. This directly impacted the GCR rates paid by customers. These are noted in this report. We were also informed that related parties were allowed to submit multiple bids until they had submitted the lowest price bid. Based on our analysis, the shrinkage percentages for pipelines affiliated with the Utilities appear to be excessive; this directly increased the rates paid by customers of the Utilities. We noted numerous other areas of concern, particularly related to the lack of competitive bidding and lack of adequate controls over related party transactions, particularly prior to 2014.

As a result of our audit, we have developed numerous recommendations.

The Independent Contractor will be responsible for following up on the recommendations made by Rehmann as well as presenting additional recommendations after incorporating additional information developed by OCC, PUCO and other third parties. The Independent Contractor will focus on assessing whether the GCR costs incurred were reasonable and prudent as well as determining what punitive damages should be supported.

Background. The OCC plays an integral part in Ohio's government and economy by fulfilling its role as the advocate agency for residential utility consumers. Established in 1976, the OCC's services for Ohio consumers include advocacy on their behalf on issues involving the affordability and quality of their utility services. OCC also provides education for consumers regarding their utility services.

The law governing the agency's activities is contained in Chapter 4911 of the Ohio Revised Code.

PART TWO: GENERAL INSTRUCTIONS

Calendar of Events. The schedule for this RFP and the work to be addressed is given below. The OCC reserves the right to change this schedule as needed.

Firm Dates	
RFP Issued:	**April 10, 2015**
Bid Due Date/Time:	**April 24, 2015 2:00 p.m.**
Estimated Dates	
Contract Award:	**May 1, 2015**
Contract End Date	**June 30, 2015***
Estimated Budget	**up to $35,000**

***The term of the awarded contract is from the date the contract is signed by all parties through June 30, 2015 with an optional one-year renewal, which may extend the contract through June 30, 2016.**

If the Independent Contractor awarded a contract under this RFP has total contracts or anticipated expenditures during the current state fiscal year totaling $50,000 or more, the OCC will decide whether or not it will seek approval from the State of Ohio Controlling Board ("CB") for the use of funds for the contract under this RFP. If OCC decides to seek approval from the CB, the timing of that approval is dependent on the dates for submission to the CB and the scheduled meeting of the CB.

Contact. The following individual will represent the OCC as the primary contact for matters relating to this RFP and any subsequent contract. All questions must be submitted in writing.

Robin Tedrick
Records Management Coordinator
Office of the Ohio Consumers' Counsel
10 W. Broad Street, Suite 1800
Columbus, Ohio 43215
E-mail: robin.tedrick@occ.ohio.gov

Proposal Submission. Proposals are to be mailed or delivered to: Robin Tedrick, Office of the Ohio Consumers' Counsel, 10 W. Broad Street, Suite 1800, Columbus, Ohio 43215-3485. Proposals can be sent via mail or e-mail to tedrick@occ.state.oh.us. The deadline to submit proposals for this RFP is ***April 24, 2015 @ 2:00 p.m.***

The OCC may reject any proposals or unsolicited proposal amendments that are received after the deadline. A prospective Independent Contractor that mails its proposal must allow for adequate mailing time to ensure its timely receipt.

Each prospective Independent Contractor must carefully review the requirements of this RFP and the contents of its proposal. All prospective Independent Contractors are on notice that the OCC will not be liable for any costs incurred by any prospective Independent Contractor in responding to this RFP,

regardless of whether the OCC awards the contract through this process, decides not to go forward with the work, cancels this RFP for any reason, or contracts for the work through some other process or by issuing another RFP.

By submitting a proposal, the prospective Independent Contractor acknowledges that it has read this RFP, understands it, and agrees to be bound by its requirements. The prospective Independent Contractor also agrees that the contract will be the complete and exclusive statement of the agreement between the OCC and the Independent Contractor and will supersede all communications between the parties regarding the contract's subject matter.

The OCC may reject any proposal if the prospective Independent Contractor takes exception to the terms and conditions of this RFP, fails to comply with the procedure for participating in the RFP process, or the prospective Independent Contractor's proposal fails to meet any requirement of this RFP. The OCC may reject any proposal that is not in the best interest of the OCC to accept. Further, the OCC may decide not to do business with any of the prospective Independent Contractors responding to this RFP.

All proposals and other material submitted will become the property of the OCC. Proprietary information should not be included in a proposal or supporting materials because all proposals will be treated as a public record and the OCC will have the right to use any materials or ideas submitted in any proposal without compensation to the prospective Independent Contractor.

Waiver of Defects. The OCC has the right to waive any defects in any bid or in the submission process followed by a prospective Independent Contractor. However, the OCC will only do so if it is in the best interest of the OCC and will not cause any material unfairness to other prospective Independent Contractors.

Amendments to Bids. Amendments or withdrawals of bids will be allowed if the amendment or withdrawal is received before the bid due date. No amendment or withdrawals will be permitted after the due date, except as expressly authorized by the OCC.

Amendments to the RFP. If the OCC decides to revise this RFP, amendments will be made available to all prospective Independent Contractors. When the OCC makes amendments to the RFP after bids have been submitted, the OCC will permit prospective Independent Contractors to withdraw or modify their bids.

Contract. If this RFP results in a contract award, the contract will include by reference this RFP, written amendments to this RFP, the prospective Independent Contractor's bid, and written, authorized amendments to the Independent Contractor's bid. It will also include any purchase orders and change orders issued under the Contract.

In addition, the prospective Independent Contractor will agree to abide by all laws, rules and directives of the State of Ohio, as they pertain to vendors doing business with the State of Ohio.

PART THREE: SCOPE OF WORK AND DELIVERABLES

This section describes the scope of work and deliverables for what the selected Independent Contractor must deliver as part of the completed work (the "Deliverables") to meet the terms and conditions of a subsequent contract.

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Scope of Work. The Independent Contractor will be fully responsible for the review, analysis, and evaluation of all materials developed by and/or filed by Rehmann and any other parties in the Investigative Audit filed PUCO Case Number 14-205-GA-COI.

Work Requirements and Deliverables. The Independent Contractor shall undertake the following work and activities, as requested and approved by OCC, for the identification, analysis and development of issues related to the investigative audit case.

Deliverable 1
The Independent Contractor shall:

a. Review and become familiar with:

   i. Ohio Revised Code Chapters 4905; 4909;
   ii. PUCO rules (Ohio Administrative Code, including but not limited to 4901) related to the previously-listed Chapter of the Ohio Revised Code;
   iii. All filings contained in the PUCO Case No.14-206-GA-GCR, Case No. 14-209-GA-GCR, Case No. 14-212-GA-GCR, and Case No. 14-205-GA-COI dockets;
   iv. The Rehmann CIS Investigative Audit dated December 30, 2014, and filed at the PUCO in Case No. 14-205-GA-COI on January 23, 2015; and
   v. Discovery and documents related to case 14-205-GA-COI provided by OCC staff.

b. Analyze and determine whether:

   i. The gas purchasing policies and procedures were reasonable and prudent and resulted in a reasonable gas cost recovery ("GCR") price;
   ii. The management structure of the Companies and Affiliates was effective with objectivity and independence when interacting with the Affiliates;
   iii. The internal controls of the Companies' effectiveness of review and approval procedures related to affiliated relationships and transactions;
   iv. The accounting records and any relevant information to substantiate witnesses' claims that GCR calculations were altered by the management and/or Affiliates and determine whether the Companies should be assessed or penalized when compared to similar situations in other jurisdictions; and
   v. Additional recommendations and/or sanctions that should be made in regard to the Rehmann Audit section titled "Summary of Interviews" or from the report overall.

Deliverable 2

The Independent Contractor will provide technical support on related issues for the discovery process in the proceeding, including:

a. Prepare discovery (interrogatories and requests for production of documents);
b. Review responses to OCC's and other parties' discovery;
c. Assist in preparing deposition questions and attend any depositions scheduled as required by OCC's lead attorney (Such depositions may require travel, though efforts will be made to limit travel through the use of telephonic depositions);
d. Review discovery requests served upon the OCC by other parties and assist in preparing OCC's responses to such discovery when requested by OCC's lead attorney; and
e. Give deposition testimony if required.

Deliverable 3

The Independent Contractor shall:

a. Provide a recommendation as to whether costs associated with the GCR were reasonable or prudently incurred costs, and provide a recommendation as to whether additional punitive damages should be recommended and what magnitude is appropriate based on contractor's previous history of similar type cases;
b. Prepare written, direct testimony supporting recommendations made in accordance with (a) and, if needed, provide rebuttal testimony. Written testimony will be presented live at the evidentiary hearing in this case;
c. Provide technical assistance needed for any pre-hearing or settlement conferences, as requested by OCC's lead attorney;
d. Provide technical assistance, when expressly requested by OCC's lead attorney, for the legal preparation involved in the proceeding including an analysis of written and oral testimony of other witnesses, and suggested cross examination questions for relevant witnesses (Companies, PUCO Staff, and other intervenors); and
e. Provide technical assistance subsequent to the hearing in order to prepare post-hearing briefs and evaluate issues for possible rehearing and/or appeals including, but not limited to, evaluation of those and related issues in the PUCO's Opinion and Order and, if requested, by OCC's lead attorney.

PART FOUR: BID REQUIREMENTS

Bid Format. Each bid must include sufficient data to allow the OCC to verify the total cost for the work and all of the prospective Independent Contractor's claims of meeting the RFP's requirements. These instructions describe the required format for a responsive bid. The prospective Independent Contractor may include any additional information it believes is relevant.

1. **Independent Contractor Profile.** Each bid must include a general profile of the prospective Independent Contractor's relevant experience working on projects similar to this work. In the **Independent Contractor Profile**, or in **Personnel Profile Summaries** (see below), details on prior and current similar and/or relevant work projects should be provided, including the scope of such work and clients. While detail is generally preferred on an Independent Contractor's most recent work, Independent Contractors are encouraged to provide detail on relevant work in Ohio.

   The profile must also include the prospective Independent Contractor's legal name, address, and telephone number; home office location; date established; ownership (such as public firm, partnership, or subsidiary); firm leadership (such as corporate officers or partners); total number of employees nationwide and in Ohio; the percentage of women employees nationwide and in Ohio; the percentage of minorities nationwide and in Ohio; number of employees to be engaged in tasks directly related to the work; and any other background information the prospective Independent Contractor believes would be useful during the bid evaluation process.

2. **Work Plan.** The prospective Independent Contractor must fully describe its approach, methods, and specific work steps for doing the work and producing the **Work Requirements and Deliverables** set forth in Part Three of this RFP. The OCC encourages responses that demonstrate a thorough understanding of the nature of the work and what the Independent Contractor must do to get the work done well. The prospective Independent Contractor must also provide a complete and detailed description of the way it will do the work that addresses the areas of interest identified below. The OCC seeks insightful responses that describe proven, state-of-the-art methods. Recommended solutions should demonstrate the prospective Independent Contractor's ability to quickly undertake and successfully complete the required tasks.

   The prospective Independent Contractor's work plan **must clearly and specifically identify key personnel assignments, by individual, as to who would be addressing the deliverables set forth in Part Three of this RFP**.

3. **Personnel Profile Summaries.** Each bid must include a profile and/or resume that demonstrates the competency of the Independent Contractor's staff by submitting the following information:

   - **Team Members Names.**
   - **Experience and Qualifications.** Experience and qualifications relevant to this project.
   - **Dates of Employment.** The length of time the team members performed relevant work requiring the necessary technical expertise.
   - **Project Experience.** The work of the team members on projects of similar or greater size and scope.

4. **References.** The prospective Independent Contractor must include three references for which the prospective Independent Contractor has successfully provided services on projects that were

similar in their nature, size, and scope of work. These references must relate to work that was completed within the past five (5) years.

Note: Each reference must be willing to discuss the prospective Independent Contractor's performance with an OCC representative.

5. **Cost Summary.** **Each prospective Independent Contractor must provide a cost summary table showing: (1) Team Members' names, (2) their hourly rates, (3) their estimated hours, and (4) total estimated project cost for the Work Requirements and Deliverables set forth in Part Three of this RFP.**

   a) The OCC requires the inclusion of ALL expenses associated with this project within the hourly rates and hours used to determine the costs for the deliverables, thereby eliminating the need for expense billings. Items to be taken into consideration in determining the cost of each deliverable should include supplies and materials, transportation and per diems, copying and overnight mail charges, etc. The successful bidder will be responsible for direct payment to vendors for any requirements for overnight mail and any "on-site" photocopying charges.
   b) Independent Contractor may invoice only for actual work performed and documented.

6. The OCC will not be liable for any costs the prospective Independent Contractor does not identify in its bid.

7. The prospective Independent Contractor must complete the Standard Affirmation and Disclosure form attached to this RFP which addresses Executive Order 2011-12K, Governing the Expenditure of Public Funds on Offshore Services. This executive order states in part "...No State Cabinet Agency, Board or Commission ("Executive Agency") shall enter into any contract which uses any public funds within its control to purchase services which will be provided outside of the United States..." By the signature affixed to this response, the Bidder/Offeror affirms, understands and will abide by the requirements of Executive Order 2011-12K. If awarded a contract, the Bidder/Offeror becomes the Independent Contractor and affirms that both the Independent Contractor and any of its subcontractors shall perform no services requested under this Contract outside of the United States. To access the executed Executive Order, please visit: http://procure.ohio.gov/pdf/EO201112K.pdf.

8. Submit an original W9 form along with your response to this RFP so that, if a contract is awarded, the OCC can process any invoices submitted by your company. The Internet link to the form is: http://www.irs.gov/pub/irs-pdf/fw9.pdf. The form must be signed and dated.

9. Submit a statement as part of your response to this RFP, affirming that you or members of your staff do not currently owe any money to the state of Ohio or have an unresolved finding for recovery from the Auditor of State as per Ohio Revised Code (ORC) 125.25. To access more information regarding ORC 125.25, please visit: http://codes.ohio.gov/orc/125.25.

10. **Campaign Contribution.** House Bill 694 requires that every contract for goods or services of more than $500 must contain a certification signed by the contract recipient certifying that the recipient is in compliance with ORC 3517.13 Divisions (I) or (J) regarding limitations on political contributions. If awarded a contract, the Independent Contractor will certify that they are in full compliance with these Divisions of ORC 3517.13. For more information, please refer to http://codes.ohio.gov/orc/3517.13.

PART FIVE: EVALUATION OF BIDS

Evaluation of Bids. Generally, the evaluation process may consist of up to four distinct phases:

1. The Initial Review of all bids for defects.
2. The Evaluation of the bids.
3. Request for More Information (Interviews, Presentations, and Demonstrations).
4. Negotiations.

It is within the purview of the OCC to decide whether phases three and four are necessary.

Initial Review. The bids will be reviewed for their timeliness, format, and completeness. Any late, incomplete, or incorrectly formatted bids may be rejected. Likewise, any defects may be waived or a prospective Independent Contractor may be allowed to submit a correction.

If a late bid is received, it will not be considered unless the prospective Independent Contractor has received prior OCC approval for a late bid for good cause shown.

Rejection of Bid. The OCC may reject any bid that is not in the required format, does not address all the requirements of this RFP, or that the OCC believes is excessive in price or otherwise not in the best interest of the OCC to consider or to accept. In addition, the OCC may cancel this RFP, reject all the bids, and seek to do the work through a new RFP or other means.

Clarifications: During the evaluation process, clarifications may be requested from any prospective Independent Contractor under active consideration and the clarification may give any prospective Independent Contractor the opportunity to correct defects in its bid. This may be done in cases where doing so would not result in an unfair advantage to the prospective Independent Contractor and the clarification is in the best interest of the OCC.

Contract Award. The OCC plans to tentatively award a Contract for this work on **May 1, 2015.** The OCC reserves the right to change the contract award date if it becomes necessary. The contract will be awarded to the Independent Contractor that demonstrates a clear understanding of OCC's expectations; can complete the scope of work and deliverables within the designated timeframe, and at the lowest or most competitive cost.

DEPARTMENT OF ADMINISTRATIVE SERVICES

STANDARD AFFIRMATION AND DISCLOSURE FORM

EXECUTIVE ORDER 2011-12K

Governing the Expenditure of Public Funds on Offshore Services

All of the following provisions must be included in all invitations to bid, requests for proposals, state term schedules, multiple award contracts, requests for quotations, informal quotations, and statements of work. This information is to be submitted as part of the response to any of the procurement methods listed.

CONTRACTOR/SUBCONTRACTOR AFFIRMATION AND DISCLOSURE:

By the signature affixed hereto, the Contractor affirms, understands and will abide by the requirements of Executive Order 2011-12K. If awarded a contract, both the Contractor and any of its subcontractors shall perform no services requested under this Contract outside of the United States.

The Contractor shall provide all the name(s) and location(s) where services under this Contract will be performed in the spaces provided below or by attachment. Failure to provide this information may subject the Contractor to sanctions. If the Contractor will not be using subcontractors, indicate "Not Applicable" in the appropriate spaces.

1. Principal location of business of Contractor:

   _____ _____
   (Address) (City, State, Zip)

   Name/Principal location of business of subcontractor(s):

   _____ _____
   (Name) (Address, City, State, Zip)

   _____ _____
   (Name) (Address, City, State, Zip)

2. Location where services will be performed by Contractor:

   _____ _____
   (Address) (City, State, Zip)

   Name/Location where services will be performed by subcontractor(s):

   _____ _____
   (Name) (Address, City, State, Zip)

   _____ _____
   (Name) (Address, City, State, Zip)

3. Location where state data will be stored, accessed, tested, maintained or backed-up, by Contractor:

(Address)	(Address, City, State, Zip)

Name/Location(s) where state data will be stored, accessed, tested, maintained or backed-up by subcontractor(s):

(Name)	(Address, City, State, Zip)
(Name)	(Address, City, State, Zip)
(Name)	(Address, City, State, Zip)
(Name)	(Address, City, State, Zip)

Contractor also affirms, understands and agrees that Contractor and its subcontractors are under a duty to disclose to the State any change in shift in location of services performed by Contractor or its subcontractors before, during and after execution of any Contract with the State. Contractor agrees it shall so notify the State immediately of any such change or shift in location of its services. The State has the right to immediately terminate the contract, unless a duly signed waiver from the State has been attained by the Contractor to perform the services outside the United States.

On behalf of the Contractor, I acknowledge that I am duly authorized to execute this Affirmation and Disclose form and have read and understand that this form is a part of any contract that Contractor my enter into with the State and is incorporated therein.

By: _____
Contractor

Print Name: _____

Title: _____

Date: _____

EXHIBIT A

THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

TERMS AND CONDITIONS FOR PROFESSIONAL SERVICES

CONTRACT # ____

I. GENERAL TERMS AND CONDITIONS

A. Performance Standards

1. The Independent Contractor declares that it is engaged as an Independent Contractor and has complied with all federal, state and local laws regarding business permits and licenses of any kind, including but not limited to any insurance coverage that is required in the normal course of business, as well as any specialized insurance that is specified herein, that may be required to carry out its business and perform under the terms of this Contract for Professional Services. The Independent Contractor acknowledges as an Independent Contractor, the OCC will not make any contributions to the Ohio Public Employees Retirement System on his/her behalf. The Independent Contractor acknowledges and understands that it does not have any authority to sign agreements, notes and/or obligations or to make purchases and/or dispose of property for or on behalf of the OCC.

2. The Independent Contractor shall furnish professional services performed in accordance with applicable commercial standards necessary for the satisfactory performance of the work hereunder. Services shall be performed by the Independent Contractor and the OCC shall not hire, supervise or pay any assistants to the Independent Contractor in its performance under this Contract for Professional Services. The OCC shall not be required to provide any training to the Independent Contractor to enable it to perform services required hereunder.

3. The Independent Contractor shall furnish its own support staff, materials, tools, equipment and other supplies necessary for the satisfactory performance of the work hereunder, unless stated otherwise in the Deliverables, Scope of Work and Duties of Independent Contractor article. Neither the Independent Contractor nor its personnel shall, at any time or for any purpose, be considered as employees or agents of the OCC or the State of Ohio.

4. The Independent Contractor must complete the Standard Affirmation and Disclosure Form (see attached) which addresses Executive Order 2011-12K, Governing the expenditure of Public Funds for Off Shore Services. This executive order states in part "...No public funds should be spent on services provided offshore..." By signing the Standard Affirmation and Disclosure Form, the Independent Contractor affirms that the Contractor and any of its subcontractors shall perform no services requested under this contract outside the United States.

To access the executed Executive Order 2011-12K, Please visit: http://procure.ohio.gov/pdf/EO201112K/EO201112K.pdf

5. The OCC may, from time to time as it deems appropriate, communicate specific instructions and requests to the Independent Contractor concerning the performance of the work described in this Contract for Professional Services. It is expressly understood by the parties that these instructions and requests are for the sole purpose of performing the specific tasks requested to ensure satisfactory completion of said tasks by the Independent Contractor. The management of the work, including the exclusive right to control or direct the manner or means by which the work described herein remains with and is retained by the Independent Contractor. The OCC retains the right to ensure that the work of the Independent Contractor is in conformity with the terms and conditions of the Contract for Professional Services, as specified herein.

6. The Independent Contractor and the OCC shall determine the specific time periods required to perform the services to be provided under this Contract for Professional Services. The Independent Contractor retains discretion over its schedule when performing services on the premises of the OCC, subject to the OCC's normal business hours and security requirements.

7. The Independent Contractor shall not communicate with the media, (e.g. newspaper, television, social media or radio personality) regarding any OCC request for proposal, invitation to bid or contract the Independent Contractor has responded to or entered into. The Independent Contractor shall direct any and all inquiries received from the media to the OCC

8. The Independent Contractor shall complete and return to OCC, the attached Ohio Public Employees Retirement System (OPERS) Independent Contractor Acknowledgement form ("PEDACKN"). This acknowledgement form states that no contributions will be remitted to OPERS for the personal services you provide to OCC as an Independent Contractor. For more information about OPERS, please visit: https://www.opers.org/.

B. Time of Performance

This Contract for Professional Services shall remain in effect until the work described herein is completed to the satisfaction of the OCC and the Independent Contractor is paid in accordance with the provisions of this Contract for Professional Services, or until terminated as provided herein, whichever is sooner. However, in any event, this Contract shall expire as stipulated in the agreed upon contract. The work described in this Contract for Professional Services shall begin no earlier than the date of the signature by the parties. The Independent Contractor will not receive compensation for services performed after signing the Contract unless OCC receives approval of this Contract by the Office of Budget and Management (Division of State Accounting). This Contract for Professional Services must be completed by June 30, 2015.

1. The work contemplated in this Contract for Professional Services is to be performed by the Independent Contractor, unless otherwise noted in the Contract, who may subcontract without OCC's approval for the purchase of articles, supplies, components or special mechanical services, that do not involve the type of work or services described in the Scope of Work and Duties of Contractor article, but which are required for its satisfactory completion. All work subcontracted shall be at the expense of the Independent Contractor.

2. The Independent Contractor shall, for each subcontract, require each subcontractor to agree to all of the provisions of this Contract for Professional Services. The Independent Contractor and subcontractors shall not agree to any provision which seeks to bind the Independent Contractor to terms inconsistent with, or at variance from, this Contract.

D. Conflicts Of Interest

1. No personnel of the Independent Contractor shall, prior to the completion of said work, voluntarily acquire any personal interest, direct or indirect, which is incompatible or in conflict with the discharge and fulfillment of his or her functions and responsibilities with respect to the carrying out of said work.

2. Any such person who acquires an incompatible or conflicting personal interest, on or after the effective date of this Contract for Professional Services, or who involuntarily acquires any such incompatible or conflicting personal interest, shall immediately disclose his or her interest to the OCC in writing. Thereafter, he or she shall not participate in any action affecting the work under this Contract for Professional Services, unless upon consultation with the Ohio Ethics Commission it is determined that, in light of the personal interest disclosed, his or her participation in any such action would not be contrary to the public interest.

3. Prior to the effective date of this Contract for Professional Services, the Independent Contractor must list all Ohio public utilities or public utility subsidiaries for which the Independent Contractor's firm or any members of the Independent Contractor's professional staff proposed for the project, has worked in a professional capacity during the past three years. For each firm listed, the Independent Contractor should describe briefly the nature of the professional relationship and the impact of the relationship upon the Independent Contractor's firm's ability to serve the Ohio Consumers' Counsel in an independent capacity. The Independent Contractor should also describe any other legal, professional or financial relationships between Ohio public utilities and any key members of the Independent Contractor's professional staff.

E. Equal Employment Opportunity

1. In carrying out this Contract for Professional Services, the Independent Contractor shall not discriminate against any employee or applicant for employment because of race, color, religion, sex, age, handicap, disability, national origin, ancestry, veteran status, military status or any other factor specified in Section 125.111 of

the Ohio Revised Code, in the Civil Rights Act of 1964, as amended, or in section 504 of the Rehabilitation Act of 1973, as amended, the Americans with Disabilities Act of 1990, 104 Stat. 327,42 U.S.C. 12101, or any applicable state or federal law, rule or regulation or any applicable amendment thereto.

2. The Independent Contractor shall incorporate the foregoing requirements in all of its contracts for performance of any of the work prescribed herein, and shall require all of its subcontractors for any part of such work to incorporate such requirements in all subcontracts for such work.

F. Suspension and Termination Provisions

1. If either party fails to perform any of the requirements of this Contract for Professional Services, or is in violation of a specific provision of this Contract for Professional Services, then the non-breaching party may suspend or terminate this Contract for Professional Services if the breaching party fails to cure such non-performance or violation within ten (10) business days following delivery of written notice of the breach; provided, however, that in the case of late payment by the OCC, Section 126.30 of the Revised Code shall apply and the Independent Contractor may not suspend or terminate this Contract for Professional Services hereunder unless such payment is more than sixty (60) days past due.

2. Upon providing written notice to the Independent Contractor, the OCC may suspend or terminate this Contract for Professional Services, in whole or in part, if the Independent Contractor failed to perform any of the requirements of this Contract for Professional Services; or that the Independent Contractor is in violation of a specific provision of this Contract for Professional Services; or if the Ohio General Assembly fails to appropriate funds for any part of the work contemplated under this Contract for Professional Services.

3. The Independent Contractor, upon receipt of notice of suspension or termination, shall cease work on the suspended or terminated activities, suspend or terminate all subcontracts relating to such suspended or terminated activities, take all necessary or appropriate steps to limit disbursements and minimize costs, and, if requested by the OCC, furnish a report, as of the date of receipt of notice of suspension or termination describing the status of all work under this Contract for Professional Services including without limitation, results accomplished, conclusions resulting therefrom, and such other matters as the OCC may require.

4. In the event of suspension or termination under this Article, the Independent Contractor shall be entitled to compensation, upon submission of a proper invoice, for the work performed prior to receipt of notice of termination or suspension, in accordance with the Terms and Conditions of Payment, less any funds previously paid by or on behalf of the OCC. The OCC shall not be liable for any further claims, and the claims submitted by the Independent Contractor shall not exceed the total amount of consideration stated in this Contract for Professional Services. In the event of suspension or termination, any payments made by the OCC in which services have not been rendered by the Independent Contractor shall be returned to the State.

5. OCC may at any time prior to the completion of services to be performed hereunder, suspend or terminate this Contract with or without cause upon thirty days prior written notice to the other party.

6. In the event this Contract is terminated prior to its completion, Independent Contractor shall deliver to the OCC all work products and documents which have been prepared by the Independent Contractor in the course of providing services under this Contract. Upon receipt and acceptance of the materials as defined in the contract, payment will be remitted to the Independent Contractor. All such materials shall become, and remain the property of, the OCC, to be used in such manner and for such purpose as it may choose.

G. Indemnification/Responsibility for Claims

The Independent Contractor agrees to indemnify, and shall hold harmless, the State of Ohio, the OCC, including without limitation, its employees, appointed officials, agents, and the OCC Governing Board, from any and all claims for injuries or damages arising from this Contract which are attributable to the Independent Contractor's own negligent actions or omissions, or those of its trustees, officers, employees, subcontractors, suppliers, and third parties directly under the Independent Contractor's control who are utilized by the Independent Contractor acting under this Contract. Such claims shall include any claims made under the Fair Labor Standards Act or under any other federal or state law involving wages, overtime, or employment matters and any claims involving patents, copyrights, and trademarks. Notwithstanding the foregoing, Independent Contractor shall indemnify and hold harmless the OCC and the State of Ohio for any judgments for infringement of patent or copyright rights and agrees to defend against any such claims or legal actions if called upon by the OCC to do so.

H. Compliance with Law

The Independent Contractor agrees to comply with all applicable federal, state and local laws in the conduct of the work hereunder. The Independent Contractor and its employees are not employees of the OCC or the State of Ohio with regard to the application of the Fair Labor Standards Act minimum wage and overtime payments, Federal Insurance Contribution Act, the Social Security Act, the Federal Unemployment Tax Act, the provisions of the Internal Revenue Code and for state revenue and tax laws, state workers' compensation laws and state unemployment insurance laws. The Independent Contractor accepts full responsibility for payment of all taxes, including without limitation, unemployment compensation insurance premiums, all income tax deductions, social security deductions, and any and all other taxes or payroll deductions required for all employees engaged by Independent Contractor in the performance of the work authorized by this Contract for Professional Services. The Independent Contractor shall be solely responsible for all fees, fines, penalties, and interest arising out of or in connection with any and all taxes and similar obligations as a result of this Contract. The OCC shall not be liable for any taxes under this Contract for Professional Services.

I. Limitation of Liability

Except with respect to personal injury or property damage, each party's liability for damages, whether in contract or in tort, shall not exceed the total amount of compensation payable to Independent Contractor under the Terms and Conditions of Payment or the amount of direct damages incurred by the Independent Contractor, whichever is less.

IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES, INCLUDING LOSS OF PROFITS, EVEN IF THE OTHER PARTY KNEW OR SHOULD HAVE KNOWN OF THE POSSIBILITY OF SUCH DAMAGES.

NOTWITHSTANDING ANY LANGUAGE TO THE CONTRARY, EACH PARTY SHALL BE LIABLE FOR ANY PERSONAL INJURY OR DAMAGE TO REAL PROPERTY OR TANGIBLE PERSONAL PROPERTY, CAUSED BY ITS FAULT OR NEGLIGENCE.

J. Change or Modifications

The Contract for Professional Services is incorporated herein by reference, and with this Exhibit A, Independent Contractor Acknowledgement Form and Standard Affirmation and Disclosure Form constitutes the entire agreement between the parties, and any changes or modifications to the agreement shall be made and agreed to in writing.

K. Assignment

Neither this Contract for Professional Services nor any rights, duties or obligations described herein shall be assigned by either party hereto without the prior express written consent of the other party.

L. Construction

This Contract for Professional Services shall be construed and interpreted and the rights of the parties determined in accordance with the laws of the state of Ohio.

M. Certification of Compliance with Ohio Ethics Law Requirements for Noncompetitive Bid Agreements

1. The Independent Contractor by signature on this Contract for Professional Services certifies that it is currently in compliance and will continue to adhere to the requirements of Ohio Ethics law as provided by Sections 102.03 and 102.04 of the Revised Code. For more information please refer to: http://www.ethics.ohio.gov/OhioEthicsLaw.html

N. Drug-Free Workplace

The Independent Contractor agrees to comply with all applicable state and federal laws regarding drug-free workplace and shall make a good faith effort to ensure that all its employees, while working on state property, will not purchase, transfer, use or possess illegal drugs or alcohol or abuse prescription drugs in any way.

O. Record Keeping Requirements

1. The Independent Contractor shall keep all financial records in a manner consistent with generally accepted accounting procedures. Documentation to support each action shall be filed in a manner allowing it to be readily located.

2. During the period covered by this Contract for Professional Services and until the expiration of three (3) years after final payment under this Contract for Professional Services, the Independent Contractor agrees to provide the OCC, its duly authorized representatives or any person, agency or instrumentality providing financial support to the work undertaken hereunder, with access to and the right to examine any books, documents, papers and records of the Independent Contractor involving transactions related to this Contract for Professional Services.

P. Campaign Contributions

The Independent Contractor hereby certifies that, as applicable to the Independent Contractor, all personal and business associates are in compliance with Ohio Revised Code 3517.13 Divisions (I) or (J) regarding limitations on political contributions and will remain in compliance for the duration of the Contract and with all applicable provisions that extend beyond the expiration of the Contract. For more information please refer to http://codes.ohio.gov/orc/3517.13.

Q. Sweatshop Free

The Independent Contractor shall comply with Executive Order 2008-29S, Sweatshop-Free. This Executive Order states in part "...Manufacturers and suppliers must provide work environments for their workers that adhere to all applicable laws." In signing this contract, the Independent Contractor certifies that all products or services offered are in compliance with applicable domestic labor, employment, health and safety, environmental and building laws. To access the executed Executive Order, please visit: http://www.governor.ohio.gov/LinkClick.aspx?fileticket=wI6ykKBiEVg%3d&tabid=1493

R. Controlling Law

This Contract and the rights of the parties hereunder shall be governed, construed, and interpreted in accordance with the laws of the State of Ohio. Independent Contractor consents to jurisdiction in a court of proper jurisdiction in Franklin County, Ohio.

II. TERMS AND CONDITIONS OF PAYMENT

A. The invoices are to be submitted monthly following work performed. Invoices provided to OCC by the Independent Contractor shall indicate: The vendor/provider name and address, the work performed, the date(s) the work was performed, the applicable deliverable, the name and title of the person who performed the work, the number of hours, the hourly rate of the person who performed the work, the total amount to be paid, the remaining balance for the deliverable, and the contract, purchase order and invoice numbers. The Independent Contractor is permitted to allocate the hours assigned to each deliverable above in a manner that allows them to achieve the highest efficiency possible, provided that the work performed does not exceed the total hours agreed to by OCC.

B. The Independent Contractor is required to submit all invoices to the OCC along with a copy of a monthly work status report. An invoice is not proper if it contains a defect or impropriety. The OCC shall notify the Independent Contractor within fifteen (15) days, in writing, of the defect or impropriety and provide any information necessary to correct the defect or impropriety. Invoices shall be sent to:

Robin Tedrick
Records Management Coordinator
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215

C. Section 126.30 of the Ohio Revised Code is applicable to this Contract for Professional Services and requires payment of interest on overdue payments. The interest rate shall be at the rate per calendar month which equals one twelfth of the rate per annum prescribed by Section 5703.47 of the Ohio Revised Code.

D. Unless expressly provided for elsewhere in this Contract for Professional Services, the Independent Contractor shall be responsible for and assume all office and business expenses, including but not limited to insurance, that are incurred as a result of the performance of this Contract for Professional Services.

E. The Independent Contractor must complete a W-9 form in its entirety. At least one original W-9 form must be submitted prior to the effective date of this Contract for Professional Services.

F. The Independent Contractor agrees to comply with all applicable federal, state and local laws. Ohio Revised Code 9.24 prohibits any state agency from awarding a contract for services to any person against whom the Auditor of State has issued a finding of recovery, if that finding is unresolved. In signing this contract, the Independent Contractor certifies that all products or services offered are in compliance with Ohio Revised Code 9.24 and does not have an unresolved finding for recovery from the Auditor of State.

G. It is expressly understood by the parties that none of the rights, duties and obligations described in this Contract for Professional Services shall be binding on either party until all statutory provisions under the Ohio Revised Code, including but not limited to the certification of balance statement in all contracts Section 126.07, have been complied with and until such time as all necessary funds are made available and forthcoming from the appropriate state agencies.

H. It is mutually understood by the parties that this Contract for Professional Services shall not be valid and enforceable unless the Director of the Office of Budget and Management first certifies that there is a balance in the appropriation not already obligated to pay existing obligations as required by Section 126.07 of the Ohio Revised Code.

14-205-GA-COI

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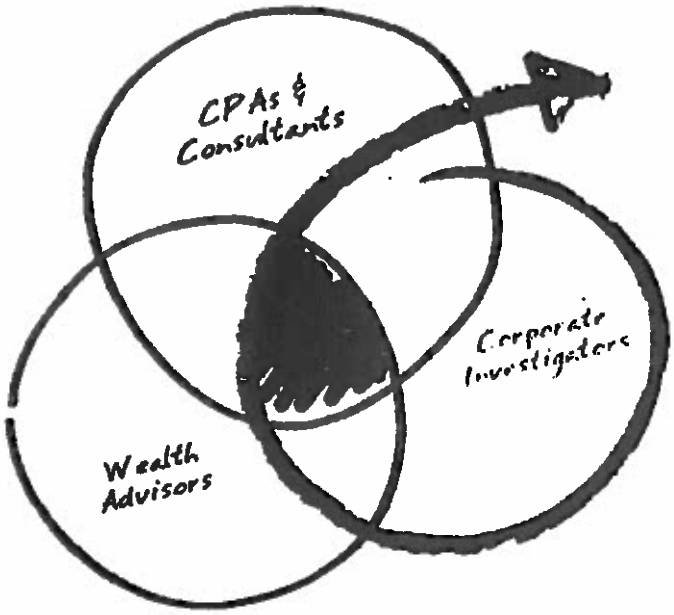

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Technician _____ Date Processed JAN 23 2015

Public Utilities Commission of Ohio
RCIS Case 436621/997020
For Publication - Confidential Pages Redacted

December 30, 2014

Confidential
General Investigation Report

Corporate Investigative Services

1500 W. Big Beaver Road, 2nd Floor | Troy, MI 48084
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Case Information

RCIS Client Number:	436621
RCIS Case Number:	997020
Case Name:	Northeast Ohio Natural Gas Corporation Orwell Natural Gas Brainard Gas Corporation
Client Company:	Public Utilities Commission of Ohio
Client Address:	180 East Broad Street, 3rd Floor
Client Address 2:	Columbus, OH 43215-3793
Date Initiated:	5/21/2014

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Executive Summary

On November 13, 2013, the Public Utilities Commission of Ohio ("PUCO") issued their Opinion and Order with regards to Case Numbers 12-209-GA-GCR, 12-212-GA-GCR, 12-309-GA-UEX, and 12-312-GA-UEX. In this Opinion and Order, PUCO ordered that an investigative audit be undertaken of the Companies and all Ohio affiliates and related entities. The specifications of this investigative audit were issued by PUCO on April 2, 2014 as case number 14-205-GA-COI. On May 21, 2014, PUCO selected Rehmann Corporate Investigative Services ("Rehmann CIS") to perform this investigative audit.

Our audit focused on several unique areas, including the calculation of the gas cost recovery rate ("GCR"), gas supply management and retention, internal controls within the companies, corporate and management structure, and related party transactions.

In order to proceed with the audit in the most organized and effective manner, Rehmann CIS provided Utility personnel with a detailed list of documents well prior to the anticipated start date for on-site review of June 21, 2014. In order to adhere to the audit plan, specific due dates were aligned with the requested documents. From inception, due dates were missed and documents were incomplete. Despite our repeated reminders, many documents needed to complete our audit were not provided; this directly impacted our ability to audit some areas. Schedules provided by the Utilities have been marked as "confidential;" schedules prepared by Rehmann CIS or documents that were prepared by the Utilities but were publically available were not marked as "confidential."

During our audit, we noted numerous instances where erroneous data was included in the GCR calculations. This directly impacted the GCR rates paid by customers. These are noted in this report. We were also informed that related parties were allowed to submit multiple bids until they had submitted the lowest price bid. Based on our analysis, the shrinkage percentages for pipelines affiliated with the Utilities appear to be excessive; this directly increased the rates paid by customers of the Utilities. We noted numerous other areas of concern, particularly related to the lack of competitive bidding and lack of adequate controls over related party transactions, particularly prior to 2014.

As a result of our audit, we have developed numerous recommendations. These suggestions are delineated at the end of our report.

List of Abbreviations

- *AA* - Actual Adjustment
- *BA* - Balance Adjustment
- *Big Oats* - Big Oats Field Supply Company
- *Brainard* - Brainard Gas Corporation
- *Cobra* - Cobra Pipeline Company
- *EGC* - Expected Gas Cost
- *GCR Rate* - Gas Cost Recovery Rate
- *GNES* - Gas Natural Energy Solutions

- *GNI* - Gas Natural, Inc.
- *GNR* - Gas Natural Resources, LLC
- *GNSC* - Gas Natural Service Company, LLC
- *Great Plains* - Great Plains Natural Gas Company
- *JDOG* - John D. Oil and Gas Company
- *JDOG Marketing* - John D. Oil and Gas Marketing, LLC
- *MCF* - 1,000 cubic feet of natural gas
- *NEO* - Northeast Ohio Natural Gas Corporation
- *North Coast* - North Coast Gas Transmission
- *Orwell* - Orwell Natural Gas
- *Orwell-Trumbull* - Orwell-Trumbull Pipeline
- *PUCO* - Public Utilities Commission of Ohio
- *RA* - Reconciliation Adjustment
- *TCO* - Columbia Gas Pipeline
- *Utilities* - collectively, Brainard, Orwell and NEO

Gas Cost Recovery Calculation

Audit Approach

Rehmann CIS was engaged to perform an analysis of GCR rates for the Utilities. The Utilities are responsible for calculating their GCR rate on a monthly basis and filing this rate with PUCO. A separate GCR rate is calculated for each of the utilities.

We received copies of the Excel spreadsheets that were used to calculate the GCR rate. We also had access to the filed GCR rates through the PUCO website and docketing system. During our analysis we obtained copies of the documentation used to originally perform these calculations, such as sales reports, invoices, and audit reports. We noted numerous instances where the data used in the spreadsheets to calculate the GCR rates did not appear to comport with the supporting documentation provided to Rehmann CIS.

Calculating the GCR Rate

There are numerous factors considered when calculating the GCR rate each month, including historical sales volumes, historical purchase volumes, historical purchase prices, and expectations of future prices. There are three main components of the GCR rate - the expected gas cost ("EGC") rate, the supplier refund and reconciliation adjustment ("RA"), and the actual adjustment ("AA"); the GCR is the sum of those three components: GCR = EGC + AA + RA. Below is a summary of the purpose of these three components based on our understanding of the GCR, review of available documentation, and inquiries with the client.

During our audit, we analyzed the GCR filings from January 2011 through June 2014. During the course of the audit, we became aware that there was a considerable amount of change with regards to the individuals who were responsible for preparing and approving the GCR calculation on a monthly basis. Below is a summary, based on information provided by the client, of who was responsible for preparing the GCR filings.

Date	Preparer	Filer	Approver
8/2013 - Current	Jessica Gojak	Don Whiteman	Don Whiteman
5/2013 - 7/2013	Anita Noce	Larry Brainard	Richard M. Osborne, Larry Brainard, Becky Howell, Marty Whelan, Stephanie Patton
2/2012 - 4/2013	Cindy Bates	Cindy Bates	Richard M. Osborne / Tom Smith
6/2011 - 1/2012	Anita Noce	Anita Noce	Richard M. Osborne / Tom Smith
1/2011 - 5/2011	Dawn Opara	Dawn Opara	Richard M. Osborne / Tom Smith

Expected Gas Cost (EGC)

There are two components that are used to calculate the EGC: 1) annual historic sales volumes and 2) primary gas suppliers expected gas cost. This calculation is performed on a monthly basis. Annual historic sales volumes should exclude free gas. These sales are to be portrayed in MCFs when used in the calculations [one MCF = 1,000 cubic feet].

Primary gas suppliers expected gas cost is supposed to include several different components, including volumes of gas purchased (in MCFs), historic transportation costs (in dollars), and storage costs (in dollars) (a complete list of pertinent costs can be found in the Appendix to Ohio Admin Code 4901:1-14-05). Historic annual volumes of purchased gas in MCFs should be multiplied by current market rates; this calculation is supposed to be done separately for each supplier of natural gas and then added together (along with other historic annual costs denominated in dollars such as transportation and storage costs) in order to determine the figure to use in the EGC calculation. Below is a brief example of the calculation for the EGC:

Primary Gas Suppliers EGC:

[Actual Annual Purchases in MCFs - Supplier A X Current Purchase Price - Supplier A]

+ [Actual Annual Purchases in MCFs - Supplier B X Current Purchase Price - Supplier B]

+ [Actual Annual Purchases in MCFs - Supplier C X Current Purchase Price - Supplier C]

+ Storage Costs

+ Transportation Costs

+ Other Charges

Primary Gas Suppliers EGC

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Annual Historic Sales:

Actual Annual Sales in MCFs

- Actual Annual Sales in MCFs of Free Gas

Annual Historic Sales

EGC = Primary Gas Suppliers EGC / Annual Historic Sales

Actual Adjustment (AA)

The purpose of the Actual Adjustment is to reconcile between what the Utility actually paid for gas and what it expected to pay for gas (as calculated during the EGC process). This calculation is performed on a quarterly basis using historical figures.

Month 1	Month 2	Month 3	Total
Actual Supply Cost ($)	Actual Supply Cost ($)	Actual Supply Cost ($)	
/ Actual Sales (less free gas) (MCFs)	/ Actual Sales (less free gas) (MCFs)	/ Actual Sales (less free gas) (MCFs)	
= Actual Cost per Unit Sold	= Actual Cost per Unit Sold	= Actual Cost per Unit Sold	
- Filed EGC	- Filed EGC	- Filed EGC	
= Difference in Rate per Unit	= Difference in Rate per Unit	= Difference in Rate per Unit	
X Actual Sales (less free gas) (MCFs)	X Actual Sales (less free gas) (MCFs)	X Actual Sales (less free gas) (MCFs)	
= Monthly Cost Difference	= Monthly Cost Difference	= Monthly Cost Difference	= Total Monthly Cost Difference
			+ Balance Adjustment
			= Quarterly Cost Difference
			/ Annual Sales (less free gas)
			= Quarterly Adjustment Rate

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Balance Adjustment (BA)

During the years under audit, the Utilities had two different types of balance adjustments ("BA") - balance adjustments for the RA and balance adjustments for the AA. Both of these balance adjustments are included as a component of the AA calculation.

The BA for the AA is calculated as follows:

Amount

Quarterly Cost Difference from 5 Quarters Back

Quarterly Adjustment Rate from 5 Quarters Back

X Annual Sales (less free gas) from 1 Quarter back

= Calculated Amount

Quarterly Cost Difference from 5 Quarters Back - Calculated Amount = BA for the AA

The BA for the RA is calculated as follows:

Amount

Dollar Amount of Supplier Refunds and

Commission Ordered RAs from 5 Quarters Back

RA rate from 5 Quarters back

X Annual Sales (less free gas) from 1 Quarter back

= Calculated Amount

Dollar Amount of Supplier Refunds and Commission Ordered RA from 5 Quarters Back - Calculated Amount
= BA for the RA

Total BA = BA for the RA + BA for the AA.

Reconciliation Adjustment (RA)

The Supplier Refund and Reconciliation Adjustment is supposed to account for the commission ordered adjustments and supplier refunds received during the quarter.

This figure is calculated as follows:

Calculation	Comment
Supplier refunds	
+ Reconciliation adjustments ordered	
= Total reconciliation adjustments during the quarter	
X 1.055	10% interest rate (per the Code) on a declining basis
= Refunds and Reconciliations with Interest	
/ Sales in MCFs	
= RA	

Findings

During our review of the GCR calculations, we had noted numerous errors and inconsistencies during the preparation of the GCR. Many of these inconsistencies and errors appear to be present in all three Utilities and may impact multiple filings. Other errors appear to be limited to one Utility or one filing period. To the extent feasible, we have included excerpts from the Utilities' spreadsheets and supporting documentation to support our comments. The spreadsheets provided to the audit team contained a substantial amount of highlighted cells. In order to facilitate examination of the spreadsheets, we have removed the highlighting and added red lines to accent the areas of concern, but we have made no further alterations to these documents.

- In several instances, the GCR rates, as filed and publically available on the PUCO website, do not appear to comport with the amounts contained within the spreadsheets provided to the audit team. Copies of these sheets are included as Exhibit 1 (contains confidential information) and are summarized below.

Utility	Month	As Filed	As Provided to the Audit Team
Brainard	Oct 2011	$6.7049	$6.6747
Brainard	May 2013	$2.2705	$2.5142
Brainard	Oct 2013	($1.3932)	($1.4674)
Orwell	Sept 2011	$6.1064	$6.1246
Orwell	Oct 2012	$4.1867	$4.1896
Orwell	Sept 2013	$5.3487	$5.3503

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We notified the personnel at the Utilities regarding these discrepancies; they advised us they were not able to locate a copy of the original Excel spreadsheet that was used to calculate the filed GCR rates.

- The sales volume reported on the Brainard August 2011 GCR filing appears to contain 13 months of data. This figure is supposed to contain only 12 months of data. Exhibit 2 (contains confidential information) contains a copy of the filed GCR statement for this month and a copy of the documentation prepared by the Utility to calculate the sales figures.

- The sales volumes reported in Brainard's GCR calculation for June 2014 appear to contain free gas. As described above, free gas should be removed from the sales volumes when calculating the GCR rates. The figure reported in the filed GCR calculations was 41,947 MCF. Per our review of the Utility's spreadsheet, this figure is intended to represent historical sales volumes from May 2013 - April 2014. Below is a summary of the actual sales volume from this time and Exhibit 3 (contains confidential information) contains a copy of the Daily Invoicing Reports that support these figures.

Month	Calc. Usage Amount	Free Calc. Usage Amount	Amount that should be included in GCR
May 2013	2,745.5	88.5	
June 2013	1,262.0	8.2	
July 2013	977.9	0.4	
August 2013	888.6	0.0	
September 2013	876.6	0.2	
October 2013	987.2	3.0	
November 2013	1,740.2	41.4	
December 2013	3,982.3	108.3	
January 2014	5,770.3	0.0	
February 2014	8,679.9	0.0	
March 2014	7,457.1	250.0	
April 2014	6,579.2	0.0	
Total	41,946.8	500.0	41,446.8

- During 2011, it appears in many instances, the annual sales figures were updated quarterly, as opposed to monthly. This error appears to be present in the GCR calculations for all three Utilities. Exhibit 4 contains a copy of these GCR filings and a summary of the monthly sales volumes for the Utilities.

- Based on our examination of the Daily Invoicing Reports, we would have expected that the annual sales volume recorded on the December 2011 GCR for NEO would have been 1,956,824 MCF. The sales volume included on the December 2011 filed GCR was actually 1,769,824 MCF; this is a difference of 187,000 MCF.

The spreadsheet used to perform the December 2011 GCR calculation contains a manual adjustment of 187,000 MCF. Based on our examination of the spreadsheet, there is no explanation provided for the cause of this adjustment. No other information was provided to us which would explain this adjustment.

The GCR filed with PUCO for December 2011 had a GCR rate of $4.5130 for this period. If the 187,000 MCF adjustment had not been recorded, the GCR rate would have been substantially lower at $3.9908. The difference between these two figures is $0.5221.

Documents pertaining to this finding can be found in Exhibit 5 (contains confidential information).

- Based on our examination of the Orwell GCR filings, it appears that the sales volumes that were used for the month of January 2011 and the month of February 2012 were incorrect. Based on our inquires with Utility employees, the following rate code should be used to determine monthly sales for Orwell: GS|LGS|SGC|SGS|GCR+.62|DEOGCR. Based on our limited analysis, it appears an incorrect query may have been used to generate the information. Due to the nature of this error, there are many GCRs that have been impacted. It also appears that there was an error when originally determining the July 2011 sales volumes; however, it appears that this error had been corrected in subsequent filings. These variances are summarized in Exhibit 6 (contains confidential information).

  For example, we were provided with two separate Daily Invoicing Reports for Orwell, the first report was run with a query for the Rate Code: <>"T". On this report, sales volumes for February 2012 were 136,400.9 and free gas amounts were 1,502.1 resulting in net gas sales of 134,898.8 MCF for this month. The second report was generated using the Rate Code: GS|LGS|SGC|SGS|GCR+.62|DEOGCR. On this report, sales volumes for the month of February 2012 were 129,938.3 and free gas amounts were 816.0. This resulted in net gas sales of 129,122.3 MCF for the month. The net difference in sales volumes for these two queries is 5,776.5 MCF.

  In general, from May 2012 through April 2013, the sales volume reported on the GCR is incorrect; this variance is typically 5,776.5 MCF. The one exception to this rule is June 2012 and will be discussed in further detail below.

- Based on our examination of the Daily Invoicing Reports, we would have expected that the annual sales volume recorded in the June 2012 GCR for Orwell would have been 742,972.0 MCFs. The sales volume included on the June 2012 filed GCR was actually 703,749.0 MCFs. The result is a difference of 39,223.0 MCF. The sales volumes included in the June 2012 GCR include sales from April 2011 through March 2012. As a result, it was impacted by the faulty query used to generate the February 2012 sales figures.

  During our review of the spreadsheet used to create this GCR calculation, we noted a manual adjustment to the sales for March 2012 of 45,000 MCF. A note included in the cell containing this adjustment indicates "Volume Adjusted to increase rate $0.30 per Tom." During our review of the available documentation, we did not become aware of any reason to make the manual adjustment of 45,000 MCF. It also appears that this manual adjustment was removed

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when performing subsequent GCR filings for Orwell. As demonstrated in Exhibit 7 (contains confidential information), this adjustment did result in an increase of the GCR rate of approximately $0.30.

Annual Sales per GCR:	703,749.0
Annual Sales per Daily Invoicing Report:	742,972.0
Difference	(39,223.0)
Manual Adjustment	(45,000.0)
Faulty Query from Feb 2012	5,776.5
Total Adjustments	(39,223.5)

- In January 2014, it appears that there was a clerical error calculating the Balance Adjustment for the AA. Included in the January 2014 calculation was a cost difference of *positive* $6,515 and a rate difference of *positive* 0.2528. The filing originally made in October 2012 contained a cost difference of *negative* $6,515 and a rate difference of *negative* .02528. Based on our analysis within Exhibit 8, the GCR rate that was filed for January 2014 was 1.9417; if the error in calculating the AA had not been made then the total GCR rate would have been $2.0472, which is a variance of ($0.1054), as demonstrated within Exhibit 8.

- As previously stated, free gas is supposed to be deducted from gross sales volumes in order to determine the amount of gas sold for GCR purposes. Rehmann CIS selected several months of free gas for each of the Utilities and scanned the list of customer names for known related parties. Rehmann CIS then asked for information detailing the free gas that these related parties had received from January 2011 through June 2014. A summary of this information has been included in Exhibit 9 (contains confidential information) to this report. We have received copies of the contracts between the customers and the producers for some of these contracts. As of the drafting of this report, we have not received the remaining contracts. We have noted several contracts that appear to be negotiated between related parties. We have not performed any procedures to determine the validity of any lease agreements provided.

- A significant component of determining the GCR rate is based on actual costs of gas. During our review of the invoices provided, we noted that many of them had been marked as "Draft," most notably invoices from Sequent. These draft invoices had been marked as "OK" and paid. Ideally, only final invoices should be included in the GCR and paid. Several examples of these invoices can be found in Exhibit 10 (contains confidential information).

- As a result of the August 2009 audit report issued by Staff, Brainard was required to recognize a Supplier Refund and Reconciliation Adjustment ("RA"). This adjustment was originally implemented in February 2010 and should have been recorded in 12 unique GCR filings. Based on our review of the GCR filings, it appears that the RA was only recognized in 11 GCR filings. A copy of these filings is included in Exhibit 11 to this report.

- On August 8, 2012, the Order and Opinion for Case 11-206-GA-GCR required Brainard to recognize two separate reconciliation adjustments. An adjustment of negative ($104,331.00) was required due to errors in calculating the actual adjustment. An adjustment of positive $460.00 was required due to errors in the calculation of the balance adjustments. These two adjustments resulted in a net reconciliation adjustment of $103,871.00; with interest, the total required adjustment was $109,583.91 in the customer's favor. Based on our calculations and the Entry from October 31, 2012, we would have expected an RA adjustment of negative $3.1872 to be applied to the GCR each month.

  When we examined the GCRs, as filed by Brainard, we noted that the RA was not applied consistently over the monthly GCR filings. The total amount of the RAs recognized as a result of this Order and Opinion was negative ($41.4631) over the course of 13 months; the total amount that was required to be recognized was only negative ($38.2464) over 12 months, which is a difference of ($3.2167). On several occasions, these amounts were netted together on the face of the GCR; in other occasions, these adjustments were presented separately. Exhibit 12 contains a summary of the RA recognized by Brainard as a result of this Order.

- As described in the first half of this memo, balance adjustments are required to be calculated for RAs after they had been fully implemented.

  Balance Adjustment: The Balance Adjustment for the RA was improperly omitted from the January 2014 GCR calculations for Brainard, as demonstrated on Exhibit 13. The underlying RA was initially implemented in October 2012 (see paragraph above and related documents contained within Exhibit 12) and recognized through October 2013. As a result, we would have expected that the final balance adjustment related to this RA would be included in the GCR rate for January 2014, however, it was improperly excluded from the BA calculation.

- During our review of the invoices provided to substantiate the gas purchases during the years under audit, we noted numerous occasions where invoices were divided between several utilities. We also noted instances where the invoices that were provided for our Orwell audit were originally listed in the name of NEO. Manually written on the invoice was a note "Buyer: Orwell Natural Gas Co. (used NEO credit.)" We had requested independent information from the Utilities that would substantiate the allocation of gas between the utilities in order to ensure that each ratepayer had actually received the gas for which they were charged, however, as of the date of drafting this report, we have not yet received this information. Examples of allocated invoices can be found in Exhibit 14 (contains confidential information).

- In February 2012, NEO first recognized a reconciliation adjustment which resulted from the Order and Opinion issued in Case 10-209-GA-GCR. In June 2013, NEO first recognized a balance adjustment for this RA. The balance adjustment was also calculated and recognized in September 2013, December 2013, and March 2014. Exhibit 15 contains copies of these GCR filings for NEO.

- Near the end of 2013, the Utilities changed the way that gas purchases were recognized in the accounting records. Prior to late 2013, it appears that one month of gas purchases, transport expenses, and other related costs were recognized as one line item in the general ledger; all of these transactions were recorded into account 401280410. As a result, it was not feasible to

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determine if all of the gas costs that were considered when preparing the GCR were also recognized in the general ledger. Also, it was not possible to determine if any expenses included in the general ledger were excluded from the GCR. Rehmann CIS tried to reconcile the cost of gas between the general ledger and the GCR filings on a monthly basis, however, the figures did not reconcile.

After late 2013, it became somewhat easier to identify items included in the general ledger, however, a substantial number of these items still did not reconcile to the general ledger. We are aware that a portion of these differences may be the result of timing differences. Exhibit 16 (contains confidential information) contains general ledger detail for two months - October and November 2013 - and information from the GCR filings regarding the actual costs of gas for those months. For example, in November 2013, the total expenses recorded in purchased gas and transportation expense totaled $571,015.70, while the gas costs recognized in the GCR were $574,195.00. Accordingly, the gas costs recognized in the GCR are $3,179.30 larger than the gas costs recognized in the general ledger.

In October 2013, the total expenses recorded in the general ledger as purchased gas and transportation expenses totaled $452,842.87, while the gas costs recognized in the GCR were $250,005.00. Accordingly, the gas costs recognized in the GCR are $202,837.87 less than the gas costs recognized in the general ledger.

A portion of the difference may be attributed to the differences in accounting standards used for book purposes and GCR purposes; however, there appear to be many items that do not easily reconcile between the different documents. We were able to reconcile some of the individual line items on the general ledger to the amounts that were included in the GCR calculation; however, we were not able to reconcile several other items.

- The calculation of the primary gas suppliers expected gas cost should be calculated by determining the average current commodity rate, by supplier, by historic purchase volumes (in MCFs). This figure should be added to historical transportation and other charges to determine the expected gas costs to recognize on the current GCR. As described above, there is a time lag between when sales and purchases are made and when they are first recognized in the GCR; throughout the years under audit, this time lag varied between two and four months. As a result of this time lag, we would expect that the volumes of gas purchased would be well known and that the relevant invoices should have been received to substantiate these purchases.

  Based on our review of the spreadsheets used to calculate the GCR rates, it appears that this formula was not followed for the majority of the audit period.

  When we examined the GCR worksheets that were provided to conduct our audit, we noted that the purchase volumes for any given month would vary in different GCR filings. We have created Exhibit 17 (contains confidential information) to document these differences. The GCR spreadsheets used prior to July 2011 did not clearly document the purchase prices or volumes, as a result, those items have been excluded from this analysis.

For example, the purchase volumes included in October 2011 were considered when calculating the EGC for January 2012 - December 2012. There are six different purchase volumes associated with Orwell for the month of October 2011:

1. 41,238.5 MCF per the January 2012 GCR calculation worksheet
2. 40,041.4 MCF per the February 2012 GCR calculation worksheet
3. 40,053.5 MCF per the March and April 2012 GCR calculation worksheets
4. 40,053.6 MCF per the May 2012 GCR calculation worksheet
5. 40,313.6 MCF per the June, July, August and September 2012 GCR worksheets
6. 40,391.6 MCF per the October, November and December 2012 GCR worksheets.

- information was developed indicating Mike Zappitello is responsible for preparing invoices on behalf of related parties and approving those same invoices on behalf of the Utility. Examples of these invoices can be found in Exhibit 18 (contains confidential information).
- We have also noted numerous gas purchase invoices that do not appear to have any sign of review or approval. All invoices should be reviewed and approved by the purchasing manager prior to submission to the accounts payable department and this approval should be documented in writing. Examples of these invoices can be found in Exhibit 19 (contains confidential information).

General Observations and Other Comments

Overall, the schedules that are used to gather the information and perform the GCR lack clarity. Frequently, it is difficult to determine the source of the figures used by Utility personnel to perform the GCR calculations. In some instances, formulaic errors have had a direct impact on the GCR calculation. In other instances, there appear to be errors in the underlying data entered into the spreadsheet. Furthermore, it appears that historical information used when performing calculations changes over time; the causes of these fluctuations are not readily apparent, making it difficult to determine the appropriateness of these modifications.

The spreadsheet used to calculate the GCR rate has been redesigned on several occasions, most notably during the summer of 2011 and the spring of 2014. The Utilities also modified the time lag between the effective date of the GCR and the underlying data on several occasions during the years under audit. For example, the January 2011 GCR filing for Orwell is based on sales and purchase figures from October 2009 through September 2010 (a four-month time lag). The January 2012 GCR filing is based on sales and purchase figures from November 2010 through October 2011 (a three-month time lag). The June 2014 GCR filing is based on sales and purchase figures from May 2013 through April 2014 (a two month time lag).

A significant amount of gas purchased by the Utilities is purchased through related parties. This gas is included in the GCR calculations. When we examined the underlying invoices to substantiate purchase prices and volumes, we noted numerous errors on the invoices, including mathematical errors and errors related to invoice dates. We believe that this is indicative of a lack of internal controls over

invoice approval (invoices with factual errors should be returned to the supplier) and lack of internal controls over invoice preparation at the affiliated companies. We believe this problem is exacerbated by the fact that in many instances, it appears that the same individual is responsible for preparing the invoice on behalf of the related party and approving it on behalf of the Utility. As a result, it does not appear that an adequate review has occurred.

During our review of the correspondence pertaining to gas purchases, we noted numerous emails sent to Tom Smith at the following email address: tsmith13@sprynet.com . We recommend that all business related correspondence between employees be conducted on their corporate email addresses, rather than their personal email addresses. We believe that this is of heightened importance due to the fact that Utilities are subsidiaries of a publically traded company.

Due to budgetary constraints, we were not able to determine the value of the errors in the GCR calculations for the three Utilities from January 2011 through June 2014. During our audit, we encountered numerous unanticipated difficulties, including delays in receiving the records necessary to complete our audit, both items included on our original audit request list and documents which were added as our audit progressed. Many of the documents received appeared to be incomplete or contained errors, particularly with regards to gas invoices. There appeared to be limited reconciliation between information included in the general ledger to the original documentation to the GCR calculation. The information contained within the GCR calculations appeared to be inconsistent from month to month, which also hindered our ability to perform our audit in the effective manner that was envisioned when drafting our budget. In order to determine the total value of the errors charged to ratepayers through the GCR process, we will need to obtain an addendum to our proposal to address the additional costs.

Gas Supply Management

Audit Approach

Rehmann CIS reviewed the Natural Gas Procurement Procedures of NEO that describe using a "Best Evaluated Cost" supply strategy for gas purchasing (see **Exhibit 20** which contains confidential information). We received copies of the Gas Supply Bid sheets from August 2010 to October 2014. The Gas Supply Bid Sheet provides information on competitive bids for the purchases of gas supplies for each month, including the following:

- The month for which gas is purchased
- The NYMEX settlement price
- The delivery point of the data
- The buyers - Brainard, Orwell, NEO
- The daily and monthly volumes required
- The awarded volumes, basis, the total price of gas, marketer

- Person responsible for nominations on to a pipeline

- Bid volume and basis received from marketers

- Total of all system requirements, less gas from storage and gas supplies delivered downstream of the city gas.

Findings

- From April 2011 through July 2014 [see Exhibit 21 (contains confidential information) for a detailed listing of Great Plains winning bids], the price of Great Plains gas often had the lowest basis point, typically $.005 to $.015 lower than the next bidder for gas delivered on North Coast Gas Transmission. We were advised that Great Plains was allowed to bid multiple times until its price was less than other bids for gas delivered to North Trumbull Pipeline. These volumes were from producers with gas on North Trumbull. Until 2014, Great Plains was allowed to provide oral bids. See Exhibit 22 (contains confidential information) for detailed examples.

- All bids received containing the name of the supplier, volume offered, and basis price are to be recorded on the Gas Supply Bid sheet; however, we observed a number of reoccurring discrepancies: receipt point of gas not provided, the basis for gas delivered on Cobra were not provided, current month volumes were inaccurate, and numbers were transposed. In January 2011, North Coast was awarded a gas contract on DEO to Contract #11944 to NEO, but bid volumes and basis were not recorded, and the email confirmation was not available. See Exhibit 23 (contains confidential information) for a detailed example. Also see Exhibit 21 (contains confidential information)for a listing of other recorded errors.

- In January 2012, the Oz Group, Great Lakes Exploration, and JDOG filed for Chapter 11 reorganization. Invoices after January 2012 include purchases from these companies. This was inconsistent with GNI's "best evaluated cost" supply strategy designed to ensure, among other things, security/creditworthiness of supplier. Best practices would either suspend doing business with these companies or expect to pay a reduced price for gas to offset the credit risk.

- For February 2012, Constellation was awarded the contract; however, Sequent's total cost was lower. We were advised by Mike Zappitello that the Sequent bid may have come in late, but documentation could not be provided to support this explanation. The difference was $.08 ($0.345 vs. $0.265). See Exhibit 24 (contains confidential information). The lowest bidder was not awarded the contract in 23 other delivery dates and delivery points. Additional transportation incurred by the low bidder may be the reason the low bidder was not selected; however, this is not documented on the Gas Supply Bid Sheet. See Exhibit 21 (contains confidential information) for a listing of low bids not selected.

- The effect of shrinkage is not reported on the Gas Supply Bid sheet.

- It is not clear from the information recorded on the bid sheet where the gas would be delivered by the gas supplier and thereby the reference point of the basis price. For example, BP

reference point for its basis price can be the receipt point into North Coast at the Crossroads pipeline interconnect, while North Coast reference point for its basis price can be the receipt point into Cobra. To compare the prices, they should be priced at the same reference point. In this case if Cobra is the reference point, gas transportation, shrinkage and taxes on North Coast need to be added into the price of BP.

- From August 2010 through July 2013 JDOG Marketing charged from $.177 (August 2012) to $1.316 (December 2011 and January 2012) above NYMEX. These amounts included a basis plus a transportation charge on Cobra. The basis portion was not subject to competitive bidding. See Exhibit 21 (contains confidential information).

- The discrepancies noted from our review of the bid sheets make it unworkable to validate that GNI is using a "best evaluated cost" supply strategy for gas purchasing.

General Observations and Other Comments

- Between August 2011 and October 2014, gas was purchased from 16 suppliers, including four companies affiliated with either GNI or a member of the Board: Great Plains Exploration Ltd, JDOG Marketing, OsAir, GNR. Bids were received from between three to nine suppliers, with the median being six. The top four suppliers who most frequently provided bids were Mid-America, Great Plains, BP, and Constellation.

- The total price recorded for delivery to Cobra North Trumbull, Cobra Homesville, and Cobra Churchtown is for delivery at the City Gate. Other prices recorded as the total price did not include downstream pipeline transportation, shrinkage, and taxes paid to affect a delivered to city gate gas cost.

- There are occasions where the cost of gas to the delivery point from two bidders results in the same gas price. In October 2011, this occurred between BP and Sequent. The decision to select BP was based on performance. See Exhibit 25 (contains confidential information).

- From October 2011 to March 2012, North Coast pipeline required GNI to hold firm transportation to ship gas from Crossroads, incurring a demand charge, in addition to the commodity charge, shrinkage and taxes.

- For August 2014, NEO had a requirement of 5 MCF per day, but no bids were received. NEO took the volumes off Tennessee Gas Pipeline ("TGP") (Meter #020091) and paid the daily balancing charge for gas as specified in TGP tariff. TGP requires daily balancing, which is not a typical practice, but this was the summer and volumes were small, and TGP allowed the practice.

Gas Retention

Audit Approach

Gas transmission pipeline operators are authorized to retain a portion of gas from shippers for fuel and lost and unaccounted for gas, also referred to as "shrinkage." The amount of gas retained is set forth in the pipeline operator's tariff or shipper's contract as a percentage of the gas received by the pipeline operator. The operator charges the transportation rate only for the volume received by the pipeline less the gas retention.

As part of the Rehmann CIS audit, we received and reviewed copies of the pipeline contracts and tariffs to assess that the accurate tariff charges were applied correctly on the invoices received.

Findings

- The transmission gas retention charged by the pipeline operators varies as noted below from 0.61% by Tennessee Gas Pipeline (within Zone 4, which covers Ohio) up to 5.5% by Dominion East Ohio.

Pipeline	Retention
Cobra Pipeline Co LTD	
North Trumbull	3.5%
Holmesville	3.5%
Churchtown	3.5%
Spellman Pipeline Holding LLC	3.5%
Orwell-Trumbull Pipeline LLC	3.7%
North Coast Gas Transmission LLC	1.25%
Dominion East Ohio	5.5%
Columbia Gas Transmission	
Transportation Retainage	1.917%
Gathering Retainage	0.534%
Storage Gas Loss Retainage	0.120%
Ohio Storage Gas Lost Retainage	0.150%
Tennessee Gas Pipeline, within Zone 4 (Ohio)	0.61%

- The measurement sections of the pipeline operators' tariffs vary significantly as illustrated by these two excerpts; one from an *intrastate* pipeline operator and the other from an *interstate* pipeline operator.
    - Spellman Pipeline: if the meters test within 2% or better of accurate measurement, then the cost of the test shall be paid by Party requesting the test. If the meters are found to be inaccurate by more than 2%, the Party owning the meter shall pay for the test. No adjustment based upon meter inaccuracies shall be made for delivery charges or natural gas imbalances unless a meter tests inaccurate by more than 5%. Any such billing correction shall only be to the 2% error level for a period of time no longer than the last meter testing or six months, whichever is less.

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- Columbia Gas Transmission: If, upon any test, any measuring equipment is found to be in error, such that the resultant aggregate error in the computed volumes of gas and quantities of energy received or delivered does not exceed two percent (2%), such errors may be taken into account in a practical manner in computing the volumes of gas and quantities of energy received or delivered. All equipment shall, in any case, be adjusted at the time of test to record correctly. If, however, the resultant aggregate error in the computed volumes of gas and quantities of energy received or delivered exceeds two percent (2%), previous recordings of such equipment, and the corresponding volumes of gas and quantities of energy received or delivered, shall be corrected to zero error for any period which is known definitely or agreed upon, but in case the period is not known definitely or agreed upon, such correction shall be for a period extending over one half of the time elapsed since the date of the last test, not exceeding a correction period of 16 days.

- Intrastate pipeline operators may adjust the shrinkage each calendar year during the term of the contract reflecting the pipelines' operating experience. The new shrinkage percentage becomes effective January 1 of the following calendar year.

- An interstate pipeline operator's retention percentage is set in the regulatory approved tariff with changes in the retention percentage vetted during the tariff approval process.

- The Cobra, Spellman, and Orwell-Trumbull pipelines do not have gas compressor stations, except Cobra - Churchtown. Cobra does not operate the compressor station on the Cobra-Churchtown regularly for purposes of supplying gas to NEO.

General Observations and Other Comments

Rehmann recommends that a specific percentage of shrinkage be transparently added to the Orwell-Trumbull pipeline tariff. In the matter of Orwell-Trumbull, the percentage of shrinkage (3.7%) was indicated in a pipeline safety report filed with another entity, but was a source of some discussion and negotiation between the pipeline and the utility. It would be more transparent if the percentage was evaluated to reflect operating experience and then stated in Orwell-Trumbull's tariff. In Spelman and Cobra's tariffs, there is an exhibit in the tariffs that is alleged by the companies to be an approved sample master agreement, which spells out the specific percentage of shrinkage. The percentage indicated for both companies is 3.5%. It is our position that the shrinkage percentage should always be indicated in the pipeline tariff.

- Customers of NEO, Orwell, and Brainard pay an extra 4.7¢/MCF for 1% of shrinkage on Cobra, Spellman, and Orwell-Trumbull pipelines. See Exhibit 26 (contains confidential information).

- The inclusion of the retention/shrinkage percentage in Orwell-Trumbull's pipeline contract, and not in the tariff, hinders market transparency of gas transportation costs.

- Tariff measurement language may account for the high retention/shrinkage percentage of intrastate pipeline operators.

Corporate Structure

Organization

In 2009, GNI, a holding company, was formed as an Ohio corporation. GNI has two principal subsidiaries, Energy West Incorporated and GNES, and is ostensibly a natural gas utility company providing natural gas distribution, transportation, gas marketing, and sales to a diverse mix of customers. The company's primary business is the operation of regulated natural gas local distribution companies located in the West, Midwest, Northeast and Mid-Atlantic regions of the country: Montana, Wyoming, Ohio, Pennsylvania Maine, North Carolina, and Kentucky. The other non-core operations include interstate pipeline, natural gas production, gathering, natural gas marketing. Exhibit 27 (contains confidential information) is an organizational chart of these entities.

Since 2010, the company began operating in Ohio and western Pennsylvania by acquiring several utilities owned primarily by the company's then chairman and Chief Executive Officer, Richard M. Osborne. Through the acquisition, the company acquired Orwell, NEO and Brainard.

The company's subsidiary GNES operations provide natural gas service to customers in 28 counties of Ohio: Ashland, Ashtabula, Carroll, Columbiana, Coshocton, Cuyahoga, Fairfield, Franklin, Geauga, Guernsey, Harrison, Hocking, Holmes, Huron, Knox, Lake, Lorain, Mahoning, Medina, Portage, Richland, Stark, Summit, Trumbull, Tuscarawas, Vinton, Washington, and Wayne. The company's Ohio and Pennsylvania operations provide service to approximately 24,400 residential, commercial, and industrial customers through approximately 1,056 miles of transmission and distribution pipelines. Exhibit 28 contains a map of Ohio documenting which counties the Utilities operate in.

<u>Brainard Gas</u>
Brainard provides natural gas distribution services in Geauga and has an operating agreement with Orwell. The company has no employees. It distributes about 276,633 MCF of natural gas to roughly 110 customers per year.

<u>Great Plains Natural Gas</u>
Great Plains principal subsidiary is NEO, which has two sister subsidiaries: Kidron Pipeline LLC, and 8500 Station Street LLC.

Northeast Ohio Gas (NEO)
In June 2003, NEO was purchased by Great Plains based in Mentor, Ohio. Historically, the company and its predecessor operations relied upon the availability of local production to serve its customers' requirements. While still obtaining a portion of its gas supply from local production, today NEO relies upon interstate natural gas transmission pipelines to meet the needs of its growing customer base. NEO serves approximately 14,100 residential and 1,060 commercial customers in 16 counties on its non-contiguous gas distribution systems through interconnects with two interstate pipelines, two intrastate pipelines, one local distribution company and local production. NEO also provides gas transportation services to industrial customers.

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Kidron Pipeline LLC
Kidron is an Ohio domestic limited liability company filed on March 22, 2010. NEO purchases gas from Kidron Pipeline LLC, an unregulated affiliate. Kidron owns a small gathering system and some production that is tied into NEO's Kidron Distribution system. The gas is sold at NYMEX plus $0.50 per MCF delivered into NEO's distribution system.

8500 Station Street LLC
8500 Station Street LLC, a domestic limited liability company, was established on January 22, 2013, and in March 2013 purchased the Matchworks property at 8500 Station Street for $1,500,000, the current corporate offices of GNI.

Lightning Pipeline Company, Inc.

Lightning Pipeline Company, Inc., through its subsidiary, Orwell, engages in the natural gas distribution business in seven counties, primarily in northeastern Ohio and western Pennsylvania. It sells natural gas to end-use residential, commercial, and industrial customers in Ashtabula, Geauga, Guernsey, Lake, Mahoning, Portage, and Trumbull. The company is based in Mentor, Ohio.

Orwell Natural Gas Company
Orwell is a small local distribution company serving customers in Ashtabula, Geauga, Lake, and Trumbull counties. Orwell was formed 1986 to serve the Village of Orwell under the provisions of a municipal ordinance. In 1987, Orwell filed an application for approval of rules and regulations governing the distribution and sale of gas, which was approved by the Commission on February 29, 1988. In March 2002, Orwell's stock was transferred to Lightning Pipeline Company, Inc., (Lightning). Lightning stock was held primarily by Richard M. Osborne Trust ("the Trust"). Mr. Richard M. Osborne is the sole trustee of this Trust. In 2005, Orwell acquired its Clarion River and Walker Gas divisions in Pennsylvania.

On February 16, 2007, Orwell filed an application to establish rates and tariffs in its unincorporated areas, along with the filing of its GCR rates with the Commission. Prior to this filing, Orwell did not file its GCR with the Commission but instead filed its rates with the municipalities that it served. On June 27, 2007, the Commission approved Orwell's application and established its initial GCR rate. Orwell serves approximately 7,230 residential and 860 commercial customers on four non-contiguous systems through interconnects with two intrastate pipelines, one local distribution company and local production. Orwell also provides transportation service to 93 customers.

Spelman Pipeline Holdings LLC
GNI announced on April 21, 2011 the acquisition of pipeline assets from Marathon Petroleum Company, LP, by its subsidiary, Spelman Pipeline Holdings, LLC. The assets include pipelines and rights-of-way located in Ohio and Kentucky. In Ohio, the assets include more than 140 miles of pipeline spanning almost a third of the state from Marion to Youngstown. Other Ohio assets are located in metropolitan and south suburban Cleveland. The Kentucky assets include over 60 miles of right-of-way in the Louisville area and points south. The pipelines were formerly used to transport refined petroleum products and crude oil.

Findings

- In May 2011, GNSC was formed to review gas purchases against nomination/confirmations and gas purchase contracts and to assure the proper procedures and documentation were followed. GNSC has no involvement in the procurement process for NEO and Orwell in gathering or selecting bids. Beginning in January 2013, GNSC also began preparing a gas purchase price comparison analysis in an attempt to confirm the local production gas purchased from related parties is purchased at a competitive price. Since October 2011 the following related party purchases were processed and paid through GNSC. These totals are reflected within the intercompany expenditure transactions as opposed to related party transactions (since GNSC is a subsidiary of GNI) for GNSC:

    - JDOG Marketing $3.8 million
    - Great Plains $1.5 million
    - JDOG $.8 million
    - OSAIR $.45 million
    - John D Resources $.127 million
    - Mentor Energy $.041 million

- On August 15, 2012, GNI entered into a definitive purchase agreement to acquire substantially all the assets of JDOG Marketing. JDOG Marketing is an entity owned by the Trust.

- June 3, 2013, GNI announced that it completed the acquisition for JDOG Marketing for $2.9 million.

- GNI changed the name of JDOG Marketing to GNR. GNR supplies gas to farm taps off of Cobra systems that are individual systems tied into Columbia Gas Pipeline (TCO). The pricing is TCO tariff delivered charges plus Cobra tariff charges plus $0.35. There are only three small customers on these systems, and the articulated reason the gas is purchased is because GNR has large-volume customers behind the meters, and they manage all meter imbalances.

- On August 6, 2013, GNR entered into a Base Contract for Sale and Purchase of Natural Gas with Cobra (see attached Exhibit 29), an entity owned and controlled by Richard M. Osborne. At the time, Richard M. Osborne was the Chief Executive Officer and Chairman of the Board of Directors of GNI. Pursuant to the Gas Agreement, Cobra sells gas to GNR at the market price per unit at the time the sale of gas occurs, as determined based on the trading price of natural gas at the New York Mercantile Exchange.

General Observations and Other Comments

- The GNSC duplicates the functions GNR is being paid a fee to perform, and as such, should be unnecessary.

- The organizational structure is not conducive to a company operating both regulated and unregulated business where affiliate transactions occur and is contrary to other multi-state utility companies that hold both regulated and unregulated business. The regulated and unregulated entities are organizationally commingled, creating the potential for intentional

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and unintentional preferential treatment to affiliates; ratepayers' subsidization of unregulated utility affiliates; fostering an environment for potential self-dealing; and subversion of how an incumbent utility should conduct business with an affiliate.

Per the Ohio Administrative Code, Chapter 4901:1-37-01 "affiliates" are companies that are related to each other due to common ownership or control. The affiliate standards shall also apply to any internal merchant function of the electric utility whereby the electric utility provides a competitive service.

- When the profit from an unregulated company is obtained by more effectively managing the transportation and storage contracts of the underlying utilities, like Orwell, NEO, and Brainard, and through this method engages in the business of marketing gas to non-affiliated companies, then placing the gas procurement function in an unregulated profit center is an option, although, the outsourcing of the regulated utilities' gas requirements should be competitively bid. Otherwise, the management of the utilities' gas requirements should be placed with an affiliated service company or left with the individual utility companies. The distinction between a profit center and a service center is that a profit center creates value by marketing the unused gas, transportation, and storage assets, thereby reducing the cost of gas to customers. A service center creates value by reducing the staff used to manage the gas procurement function, thereby reducing the cost of gas to customers.

Management Structure

Key Personnel

- Richard M. Osborne
  - June 2014, removed from GNI Board.
  - Chairman of the Board from 2005 until May 1, 2014
  - Chief Executive Officer from 2007 until May 1, 2014

- Gregory J. Osborne
  - On May 14, 2014 became Chief Executive Officer of GNI
  - Since November 2013 was the GNI President and Chief Operating Officer
  - In February 2012 was appointed President and Chief Operating Officer of Energy West Resources, Inc., the marketing and production subsidiary
  - From 2006 until January 2012 served as President, Chief Operating Officer and a Director of JDOG
  - Has served as a Director of the company since September 2009
  - From 2003 until April 2006, he was president of Great Plains Exploration LLC
  - From 2001 until joining Great Plains, he served as Executive Vice President of Orwell

- James E. Sprague
  - Vice President and Chief Financial Officer effective May 1, 2014
  - Served as an advisor to GNI Board
  - Board member from 2006 to 2010

- Thomas J. Smith
  - From November 2007 to May 2014 served as Vice President and Chief Financial Officer and a Director since 2003
  - Served as our interim President from August 2007 to November 2007
  - President of NEO and Orwell
  - From December 2006 to September 2010, he was also a director of Corning Natural Gas Corporation
  - From 1998 to 2006, he was the President, Chief Operating Officer and a Director of JDOG, which he remains a Director

- Kevin J. Degenstein
  - Joined Gas Natural in 2006 as Senior Vice president of Operations
  - From June 2008 to November 15, 2013, he was President and COO of GNI
  - Rejoined GNI on August 1, 2014 as COO and Chief Compliance Officer

- Donald R. Whiteman
  - Currently working for Richard M. Osborne after leaving GNI
  - On July 15, 2013, appointed as the Corporate Controller.
  - In 2009, he was appointed Corporate Controller of OsAir
  - From 2004 to 2009, Mr. Whiteman served as Corporate Controller of 2020 Train Avenue, a wholly-owned subsidiary of OsAir, Inc. ("OsAir")

- Rebecca Howell
  - Currently heads up a team devoted to implementing new accounting software for the Company
  - Corporate Controller of GNI until July 15, 2013
  - Chief Financial Officer of NEO
  - Chief Financial Officer of Orwell
  - Appointed Corporate Secretary in 2007
  - Controller and Secretary, JDOG Marketing
  - President of Cobra and Orwell-Trumbull

- Tim Roshetko
  - Marketing Manager NEO in January 2007

- Mike Zappitello
  - Director of Gas Supply NEO
  - GNR
  - Manager of Gas Procurement, JDOG Marketing, from 2009 to 2013

- Jonathan Harrington
  - Former Corporate Controller, GNI in Nov 2011

- Anita Noce
  - Former Accountant for NEO

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    - Former Assistant Corporate Controller for GNI
    - Worked for Cobra
- Marty Whelan
    - Currently President of Orwell and NEO
    - Worked for Cobra prior to NEO being acquired by Gas Natural

Codes of Conduct

Rehmann CIS selected 30 employees in order to determine if they had signed Codes of Conduct on file. Rehmann CIS noted two GNI employees, who allocate labor to the three Ohio Utilities, did not have a signed form on file with the three Ohio Utilities.

Findings

- GNI has moved away from a duality leadership structure, where the Chief Executive Officer holds the position of the Chairman of the Board. Since November 2013, Gregory J. Osborne has served as the GNI's president and Chief Operating Officer. On May 14, 2014, he became Chief Executive Officer of GNI. Unlike his predecessor, he is not the Chairman of the Board.

- Individuals were hired or moved to a new position without regard to potential conflict during time in which Richard M. Osborne was the CEO and Chairman of the Board.

- Written job descriptions describing the role, responsibility, and accountability of management personnel do not exist.

- There is a general lack of documented policy, processes, and procedures on affiliate transaction, and conflict of interest, as well as other "ring fencing methods" to protect the exchange of sensitive information between the regulated and unregulated entities.

- Individuals were hired or moved to positions where their knowledge from their past position or job presented potential conflicts of interest in performing their new duties, without a thorough briefing or instruction by the Board or other personnel.

    - For example, Rebecca Howell was the Controller and Secretary, JDOG Marketing, before becoming the Corporate Controller of GNI. As Controller and Secretary for JDOG Marketing, she executed the Asset Management Agreement, Identifier: NEO2011-GTS-TCO #1.2, between GNSC and JDOG Marketing. Jonathan Harrington, Controller of GNI executed the agreement for NEO (2.24.11)

- For the three Ohio Utilities (Brainard has no employees) we examined payroll and human resources internal controls and tested a sample of employees for authorized pay. Rehmann CIS evaluated all employees' pay over a three-year period, and pay increases were explained by the Human Resources Manager. Rehmann CIS examined the policies and procedures relevant to hiring policy, salary and performance policy, and termination policy and noted the Compensation Committee does not authorize pay increases. See Exhibit 30 (contains confidential information). Rehmann CIS requested but did not receive a payroll accounting distribution report for evaluating how employees distributed their time to accounting codes.

General Observations and Other Comments

- While it is unknown what, if any, effect the move from a duality leadership structure may have on company performance, the separation should provide greater independence and oversight from the Board.

- Employment contracts of senior management should have a clause that restricts the employee from working for a company doing business with GNI or its subsidiaries for a specified period of time after leaving the company.

- GNI lacks adequate management structure, in the form of policies and procedures, and compliance oversight.

IT Structure

IT Systems in Place

GNI and its affiliates use a variety of IT systems, including the following systems:

- Email (Microsoft Exchange Server 2010)

- Email Archiving (GFI MailArchiver)

- Enterprise Resource Planning (Navision and Epicor)

- Customer Information System (Navision, Advanced Utility Software, CBSW, and Utility Billing System)

- Meter Reading Software (MV-RS by Itron)

- Productivity Suites (Microsoft Office 2007, 2010, and 2013)

- Various Hardware (Dell, Lenovo, HP, EMC, Apple, Ricoh, etc.)

- Technology Asset Management (Kaseya VSA)

- Various Security Products (Symantec, Barracuda, etc.)

Findings

- GNR uses the corporate Email system, and has no access to the other IT systems.

- GNI is implementing SAP, which will provide a common platform for the accounting and financial information of Energy West and GNES and their subsidiaries. A gas procurement module will be part of the next phase.

- During the Rehmann CIS audit, we discussed with the Chief Information Officer and Division Controller the employee network access rights assigned to the network that holds the Ohio Utilities' key confidential documents, including consolidated spreadsheets, Gas Cost Recovery spreadsheets, and Gas Supply Bid Sheets. It was determined and agreed that too many employees have access to the network drive.

General Observations and Other Comments

- We were engaged to determine if the IT logical access records were appropriate. In order to conduct this portion of our analysis, we requested access to those records, however, they were not provided to us. As a result, we are unable to determine if the logical access records are appropriate based on the roles and responsibilities of the employees within GNI and subsidiaries.

Internal Control Over Financial Reporting

GNI currently outsources its internal audit function; they have contracted with FreedMaxick CPAs, P.C. for the fiscal year ending December 31, 2014 to complete the documentation and evaluation of internal controls over financial reporting and entity level controls. Testing of the internal controls was not completed by FreedMaxick as the completion of our fieldwork; as a result, we are unable to determine if any material weaknesses or significant deficiencies were noted during their evaluation of the effectiveness of internal controls. Exhibit 31 (contains confidential information) and Exhibit 32 (contains confidential information) include a list of controls identified by FreedMaxick.

Another professional consulting firm was hired to perform similar services for the year ended December 31, 2013. The Board minutes indicate that the change was the result of pricing concerns. For December 31, 2013 management stated in GNI's 10-K that internal controls over financial reporting were not effective.

The material weakness included in the December 31, 2013 10-K states:

> In our assessment of the effectiveness of internal control over financial reporting at December 31, 2013, we have identified a material weakness related to our procedures concerning gas procurement from related parties and gas cost recovery. In 2011, the PUCO, following a gas cost recovery audit, directed us to modify the gas procurement procedures at our Ohio utilities, NEO and Orwell, and adjust amounts billed to our Ohio customers for the audit period. In its audit in 2012, the PUCO staff argued that we failed to comply with the procedures set forth in the prior GCR audit. This led to the disallowance of gas costs in the PUCO's November 13, 2013 Order as discussed in Note 17 – Commitments and Contingencies of our accompanying consolidated financial statements. During 2013, we accrued the amount of the disallowance as well as post audit period costs that were disallowed during the audit period. This accrual remains on our balance sheet at December 31, 2013. The failure to comply with the PUCO Order leads management to conclude that we did not maintain adequate and effective internal control in the area of our gas supply procurement and the gas cost recovery through rates.

We have implemented measures that we believe remediated the weakness in our internal control over financial reporting described above. We have accrued the amount of the disallowance in the three months ended June 30, 2013 and we performed additional analyses and implemented additional procedures designed to provide reasonable assurance that our consolidated financial statements were prepared in accordance with GAAP. As a result, we believe that the condensed consolidated financial statements included in this Form 10-K as of and for the year ended December 31, 2013 fairly presents, in all material respects, our financial condition, results of operations and cash flow for the periods presented, in conformity with GAAP.

During the third quarter, we implemented changes at Gas Natural to improve our internal control over financial reporting such as (1) hiring a new corporate controller, a new controller at our Ohio utilities and two new general accountants, (2) attending training sessions given by the PUCO for gas recovery procedures, and (3) effecting other corporate and accounting changes referenced in the PUCO Order.

During the fourth quarter, we continued to implement changes to improve our internal control over financial reporting such as (1) our utilities began purchasing local production gas directly, bypassing possible related party mark-ups and fees on this gas, (2) adopting procedures that ensure that local production gas purchased from GNR by our utilities must come from unrelated, third-party pipelines at competitive prices and without commission, (3) we started the process of designing and implementing our new RFP for gas purchasing, which was successfully completed on March 14, 2014, and (4) we continue to improve our Ohio GCR filings through an active dialogue between us and the PUCO staff.

We completed our remediation efforts to fully comply with the PUCO Order, which included design, implementation and testing, during the first quarter of 2014.

We believe that the remediation measures described above have strengthened our internal control over financial reporting related to our procedures concerning gas procurement from related parties and gas cost recovery and remediated the material weakness discussed above. We are committed to continuing to improve our internal control processes and will continue to diligently review our financial controls and procedures.

No material weaknesses were noted in the 2012 and 2011 10-Ks filed by GNI.

Related Party and Intercompany Transactions

Policies and Procedures

A related party transaction is a business deal or arrangement between two parties who are joined by a special relationship prior to the deal. For example, a business transaction between a major shareholder

and the corporation is a related party transaction. American public companies are required to disclose all transactions with related parties such as executives, associates and their family members, in their annual 10-K report. While related party transactions can be cost effective with competitive bidding, the special relationship inherent between the involved parties creates potential conflicts of interest which can result in actions which benefit the people involved as opposed to the shareholders.

Intercompany transactions are transactions between two associated companies who file a consolidated tax return or financial statement.

Effective May 2014, all related party accounts payable transaction invoices are weekly reviewed by outside legal counsel and then approved by the Board of Directors before payment. See **Exhibit 33** (contains confidential information). Any approved related party transactions are reported to the CFO, Corporate Controller, and the SEC Reporting Manager for disclosure by outside legal counsel that attends all Board meetings.

Prior to this, most oversight was placed on the related party reporting in the 10-K. The Board stated in the December 2013 Board minutes, "Although all of the board members agree that these transactions have been negotiated at arms-length and are beneficial to the Company, public perception has been negative in the wake of the PUCO order and the subsequent *Seeking Alpha* articles. After discussing the matter, the consensus was to reduce related party transactions going forward to address the perception issue, while acknowledging that certain related party relationships are essential to the Company and must continue." See **Exhibit 34** (contains confidential information).

Rehmann CIS examined the process and noted memos by legal counsel challenging the transactions and the level of support provided with the related party invoices. See **Exhibit 35** (contains confidential information). In addition the Board resolved in their January 2014 Board meeting that all related party transactions not governed by a written contract cease as of March 1, 2014. In addition GNI and its subsidiaries are to cease purchasing natural gas from affiliates of Richard M. Osborne unless purchases are from an existing gas supply contract and the price purchased is less than the Company can obtain from unaffiliated third parties after evidence of competitive pricing. Also, purchases of natural gas from GNR (the company subsidiary that acquired the assets of JDOG Marketing) were to cease. See **Exhibit 36** (contains confidential information).

Solicitation of services other than related party and intercompany services are governed by a Purchase Order Process Procedure that documents authorization requirements and the requirement of two to three competitive bids if over $500. See **Exhibit 37** (contains confidential information).

Rehmann CIS interviewed staff responsible for capturing related party transactions processed and reporting the transactions quarterly in the 10-Q and annually in the 10-K. The responsible GNI SEC Reporting staff quarterly download invoice records and verify them for proper coding as related party expenditure transactions. Rehmann CIS reconciled the reported 10-K related party expenditure transactions to the vendor file, after removing GNI and its non-Ohio subsidiaries related party expenditure transactions, and noted some differences that could not be reconciled by Rehmann CIS.

Reconciling Related Party Accounts Payable and Accounts Receivable general ledger accounts to detailed subsidiary records must be completed timely and accurately for consolidation of payables and

receivables among GNI and its subsidiaries. Rehmann CIS noted that some reconciliations were not completed at year ends. See Exhibit 38 (contains confidential information) for illustrations.

Related Party Purchases

Each of the three Ohio Utilities purchase services or products from or sell services or products to related parties of GNI. These related party transactions are either with Richard M. Osborne, GNI's former chairman and chief executive officer, or companies owned or controlled by Richard M. Osborne. See Exhibit 39 (contains confidential information). The total invoiced for purchased services by the three Ohio Utilities from January 1, 2011 through May 31, 2014 are illustrated in Exhibit 40 (contains confidential information).

Rehmann CIS noted that most related party purchases were not made through a competitive bid. Detailed supporting documents provided to Rehmann CIS did not include competitive bids from vendors other than the related parties. Some related party natural gas purchases were price checked, such as Great Plains purchases, before each month's nominations were determined. See Exhibit 39 (contains confidential information). Also, certain pipeline transportation is based on tariffs, such as purchases from Cobra and Orwell-Trumbull, so competitive bidding is not applicable.

There remains risk the three Ohio Utilities are not paying market rates for purchased services. While we did not break out the vendor file record of purchases illustrated in Exhibit 40 (contains confidential information) by type, the GNI Form 10-K reported related party purchases for the three Ohio Utilities for years 2011, 2012, and 2013 were $6.0 million of the $15.5 million of 10-K reported natural gas purchases, $4.2 million of the $6.4 million 10-K reported pipeline construction purchases, and $2.1 million of the $2.5 million 10-K reported rent, supplies, consulting, and other purchases. In addition $1.1 million, $3.4 million, and $2.2 million of natural gas were purchased in 2011, 2012, and 2013, respectively, from related parties for the three Ohio Utilities, but through GNSC. Other non-Ohio utility subsidiaries and GNI purchases make up the difference. Without true competitive bidding, these related party purchases can be inflated over market rates.

Examples of related party pipeline construction purchases from Big Oats Oil Field Supply Company that were not competitively bid include:

- April 18, 2013 purchase of digging in 6 inch pipe for $121,350, illustrated in Exhibit 41 (contains confidential information)
- August 6, 2012 purchase of 4 inch pipe for $30,690, illustrated in Exhibit 42 (contains confidential information)
- February 20, 2012 purchase of construction services for $21,750, illustrated in Exhibit 43 (contains confidential information)

Examples of related party natural gas purchases from JDOG Marketing that were not competitively bid include:

- March 7, 2012 purchase of agency and broker fees for $40,648.50, illustrated in Exhibit 44 (contains confidential information)

- April 27, 2012 purchase of agency and broker fees for $12,187.50, illustrated in Exhibit 45 (contains confidential information)

An example of related party purchase of supplies from Big Oats Oil Field Supply Company that was not competitively bid includes:

- February 28, 2014 purchase of meters for $12,889.97, illustrated in Exhibit 46 (contains confidential information)

Richard M. Osborne directed early payments of related party accounts payable invoices. Exhibit 47 (contains confidential information) is an example. The $13,200 invoice was due October 31, 2013 but paid October 4, 2013 on Check Number 26433.

Intercompany Purchases

Each of the three Ohio Utilities receives invoices from either GNI or one of GNI subsidiaries. This includes the three Ohio Utilities invoicing each other. The organization chart for GNI and its subsidiaries is shown in Exhibit 27 (contains confidential information). The invoices the three Ohio Utilities collectively paid from invoicing by GNI or its subsidiaries and from January 1, 2011 through May 31, 2014 are illustrated in Exhibit 48 (contains confidential information).

Best practices include having an Intercompany Agreement signed by senior management of the company providing the intercompany service and by the senior management of the company receiving the intercompany service. Rehmann CIS noted that except in one intercompany arrangement billing (Orwell providing service to Brainard), there are no intercompany agreements describing what is to be billed and the pricing and payment terms of those billings.

There is risk the three Ohio Utilities may be charged more than market rates for services and, therefore, subsidize the operations of GNI or one of its subsidiaries.

Examples of intercompany charges include:

- A December 31, 2013, $720,981.24 intercompany billing from GNI to NEO. The billing included $506,038.94 of charges from October 1, 2011 through December 30, 2013 that were paid December 31, 2013 and were mostly labeled overhead charges. There is no means of determining whether the overhead charges are reasonable and a fair market rate is charged to NEO. Exhibit 49 (contains confidential information) illustrates this example.

- A September 9, 2012 repair for $2,903.76 plus OnStar fee of $57.80 for Richard M. Osborne's Escalade that was charged to NEO. Exhibit 50 (contains confidential information) illustrates this example.

- A December 31, 2012 charge for legal fees for $11,596.62 and overhead fees for $1,164.65 paid to Energy West without an intercompany agreement. Exhibit 51 (contains confidential information) illustrates this example.

Related Party Sales and Credit Memos

The total invoiced for sales of services by the three Ohio Utilities from January 1, 2011 through December 31, 2013 is illustrated in Exhibit 52 (contains confidential information).

Richard M. Osborne owed Orwell related party receivables for work from June 25, 2010 through August 9, 2012 and totaling $115,492.75. He also owed for construction costs from December 1, 2010 through February 11, 2011 and totaling $120,974.63. These receivables were then reduced by a December 2012 transaction totaling $66,991 for a claimed 3% shrinkage on the Orwell-Trumbull Pipeline from July 2010 through November 2011. The Purchasing Director did not believe this 3% shrinkage credit was contractually justified. Instead of writing a check to Orwell, Richard M. Osborne personally approved $419,319.23 of credits to Orwell, NEO, Brainard, Clarion Gas, and Walker Gas related party accounts payable. These credits effectively eliminated the old Orwell receivables of $169,467.38 (after the $66,991 credit by journal entry dated December 31, 2012).

Richard M. Osborne also owed Energy West Resources $249,914.85 for old outstanding related party receivables. NEO wired $249,914.85 to Energy West on March 26, 2013 for full payment of Richard M. Osborne's debt to Energy West. Numerous journal entries were written to account for the transaction. Detailed support of this transaction is in Exhibit 53 (contains confidential information). Richard M. Osborne benefited from this transaction by delaying payments through credit memos. The transactions became costly for the Utilities because the Utilities had to process the transaction, including numerous complex journal entries.

Summary of Interviews

No express promises of confidentiality were provided to any of the individuals interviewed by Rehmann CIS. Still, publication of names and information may subject interviewees to possible adverse action or unwanted scrutiny.

Rehmann CIS, as part of the audit conducted of the operations of NEO, Orwell, and Brainard, conducted interviews of former and current employees. The purpose of these interviews was to obtain information related to priority areas surrounding the operation of the Utilities, including the GCR calculations, the issuance of the 2012 Request for Proposal (RFP), and any other areas that may have had a material influence on the day-to-day operations while under the guidance of Mr. Richard M. Osborne.

Multiple "Richard M. Osborne entity" former employees did not submit to interviews when requested. More than one was engaged in litigation against Richard M. Osborne or signed terms prohibiting them from discussing their previous employment.

Rehmann CIS was informed that many of the GCR calculations are suspect in that the final numbers, on many occasions, will not have the required documentation to support the calculations. Management would direct those employees responsible for calculating the GCR to utilize decreased gas sales figures which would result in higher GCR calculations. Rehmann CIS obtained an email whereby former CFO Tom Smith confirms that he and Richard M. Osborne were the final approvers on the GCR reports. (Exhibit 54). The Utilities would distribute free gas to customers and not always appropriately deduct from the GCR calculation the value of the free gas. This again would result in an inflated GCR

calculation. It is suspected that some of the people or entities receiving free gas did not qualify for free gas. In each free gas situation there should exist a contract between the land owner, where the gas well is located, and the Utilities. Rehmann CIS was informed that an in-depth investigation in this area would likely identify free gas that was unwarranted. Richard M. Osborne was identified as the individual responsible for those individuals or entities that were inappropriately receiving free gas.

Rehmann CIS was informed that there existed situations that were of a questionable nature with respect to business relationships between the Utilities and also companies outside of the Utilities that were owned by Richard M. Osborne. Information was provided regarding Brainard and Orwell. Allegedly, there was a time when Brainard was paying Orwell a monthly management fee of $8,000. Justification for the fee was that Brainard had no employees and the Orwell employees were running the day-to-day operations of Brainard.

There were occasions when the Utilities would need guidance or consulting services from GNI. It is believed that on occasion GNI would charge the respective Utilities company $150 an hour for the consulting services. An example would be for guidance on how to handle certain financial transactions. Calls that lasted only a couple minutes were charged a minimum of ten minutes. It is unknown if these alleged charges were part of the GCR calculations. Rehmann CIS was informed of a particular instance whereby Orwell-Trumbull invoiced Orwell approximately $67,000 for gas that Orwell had allegedly purchased. Accounting conducted the necessary research in an attempt to locate supporting documentation for the purchase, but none could be found. Employee 1, the controller for the Ohio Utilities, conducted further research and also found no documentation to warrant payment. Employee 1 allegedly sent a message to Richard M. Osborne, who was demanding that Orwell-Trumbull had not received full payment for the purchase, stating that payment was not warranted. It is believed that Richard M. Osborne eventually received payment, and the accounting employee was terminated a short time later.

Rehmann CIS learned that at some point there existed a $4 million loan payable to Richard M. Osborne on the books of the Utilities. It is believed that the loan payable was entered during 2002 and represented loans that were issued by Richard M. Osborne. Sometime thereafter, one of the now former employees conducted research to identify the logical infusion of cash on the part of Richard M. Osborne. No documentation, such as bank deposits, could be identified. Subsequent to the alleged loan being entered into the books, the employee noticed one particular instance where the loan payable was manipulated. The situation consisted of Orwell purchasing gas from British Petroleum (BP) on behalf of Great Plains (a Richard M. Osborne company). Although Great Plains allegedly benefited from the gas purchase, Orwell did not receive payment from Great Plains and instead, Richard M. Osborne allegedly directed the Utilities to debit the loan payable due to him.

Rehmann CIS received information indicating Employee 1 would frequently provide accounts payable with invoices from Richard M. Osborne companies for which the Utilities could not locate appropriate documentation. Accounts payable would threaten to not pay the invoices, and Employee 1 would threaten termination and, on occasion, handle payment of the invoices himself. Other times accounts payable would identify Richard M. Osborne-related invoices that slipped past the accounts payable personnel without their knowledge. Rehmann CIS learned that there was a frequent issue surrounding JDOG Marketing invoices representing gas purchases by the Utilities. These invoices had a history of being incomplete in that they lacked dates, number of gas units, and were often illegible.

Rehmann CIS was informed it was well known by "many employees" that the Utilities would purchase the majority of its supplies and materials from Big Oats. It was also known that Big Oats, a company owned by Richard M. Osborne, was known to markup supplies and materials prior to selling to the Utilities. It was discovered Big Oats would occasionally send duplicate invoices to the Utilities. Some were caught and some were not. The Big Oats operations officer would occasionally personally deliver invoices without appropriate documentation to the Utilities. Accounts payable would deny payment of the invoices, but almost always the invoices would eventually get paid. There were also occasions when the Big Oats operations officer was able to push duplicate invoices through the accounts payable system.

Due to the obvious conflict of interest with respect to Big Oats, there was a point whereby the Commission mandated that the Utilities obtain bids for purchases over a certain threshold. The dollar amount of the threshold should be in the Board of Directors' minutes. Before the invoices could be paid, the respective bid had to be attached to the invoice. Employee 2 sent out a company-wide email regarding the bid process, and Richard M. Osborne became very upset. To circumvent the bid process, employees were instructed to break up the purchases so that they were below the threshold and, thus, purchases could continue at Big Oats. When James Sprague became the CFO of GNI in May 2014, all purchases from Big Oats ceased.

Rehmann CIS received information that Employee 3, a former accountant at NEO, had previously voiced concerns about questionable business practices on the part of NEO. Rehmann CIS attempted to interview Employee 3, but she refused to schedule a meeting.

It was learned that Employee 3 had been at the Utilities for nearly 10 years and worked at various related companies. At some point she became responsible for the GCR calculations. It became known by some within the Utilities that her primary responsibility was to ensure that the GCR calculations filed were the numbers that Richard M. Osborne requested, even if they did not have the appropriate documentation. Rehmann CIS was told that at one point it got so bad that Employee 3 wanted to file the GCR calculation under her trainee's name rather than her own.

During the Rehmann CIS interviews, an issue involving two invoices, one from JDOG Marketing and the other from Great Plains Exploration, Inc., was raised. Both invoices were apparently submitted to GNI for the alleged purchase of gas from January 1, 2012 through September 30, 2013. Both invoices were dated November 1, 2013 and were in the amounts of $100,745.19 and $100,947.88, respectively. Both invoices were paid via Orwell checks dated October 29, 2013, Check Nos. 7015 and 7016. Both checks were authorized and signed by Donald Whiteman, former controller at GNI. **(Exhibits 55 and 56).**

Employee 2, Employee 4, and Employee 5 were familiar with the aforementioned checks issued by Orwell. Each individual was aware that the JDOG Marketing and Great Plains Exploration, Inc. invoices were allegedly for line losses of gas. It is believed that the two invoices would have been prepared by either Brian Wollet or Jessica Carruthers, at the direction of Richard M. Osborne. Both Wollet and Carruthers are employed by Richard M. Osborne at Orwell-Trumbull. According to Employee 4, the two invoices basically overstated the production and attributed the overstated production to "line loss" that did not occur. Employee 4 stated that the two invoices should not have been approved and paid by Whiteman. Employee 4 advised that it should be noted that Whiteman was Richard M. Osborne's accountant at Great Plains prior to being hired as the GNI controller. Rehmann CIS was able to obtain a

chain of emails related to this issue along with a handwritten letter authored by Employee 2. (Exhibit 57).

The topic of the 2012 RFP was discussed with current employees, and there is convincing evidence that Richard M. Osborne was the driving force behind a plan to ensure that JDOG Marketing was awarded the contract. James Sprague advised that attorney Andy Sonderman, of the law firm Kegler, Brown, Hill & Ritter, LPA (Mr. Sonderman was previously employed at Weitman, Weinberg & Reis Co., LPA), drafted and oversaw the RFP process. Sprague said he worked closely with Sonderman during the RFP process, and his role was to monitor the data room in which the RFP and its related information were housed. During this particular time, Sprague was employed at the Walthall CPA firm. Sprague was responsible for sending the RFP via email to the 15 potential bidders. He had received the potential bidder list through the data room.

Sprague advised that the initial plan was for him to open the bids at his Walthall office in the presence of a representative from the Ohio Consumer Council, the Public Utilities Commission of Ohio, and the Utilities. When only one bid was received, the formal opening ceremony was cancelled.

Employee 5 was interviewed regarding the 2012 RFP process that resulted in JDOG Marketing being the only bidder and, thus, awarded the gas contract. Employee 5 confirmed that he had conversations directly with Richard M. Osborne prior to the drafting of the GNI RFP. Employee 5 recalled Richard M. Osborne asking him to prepare a written document detailing his job description as the gas purchaser on behalf of JDOG Marketing. Upon completing the job description, Employee 5 gave the document to either Becky Howell or Tom Smith. When Employee 5 finally saw the RFP, he recalled telling Richard M. Osborne that none of the other companies would ever submit a bid because they would immediately realize from the RFP language that the RFP was written for JDOG Marketing. Employee 5 noticed that part of the RFP was almost word for word from the job description he had written and given to either Howell or Smith.

Employee 5 expressed to Richard M. Osborne that the Public Utilities Commission of Ohio would have difficulty accepting the RFP as it was written. Richard M. Osborne responded that he would bring suit against the Commission if they interfered. Employee 5 stated that he drafted the JDOG Marketing proposal with the assistance of Richard M. Osborne. Richard M. Osborne directed Employee 5 as to the bid figures that were inserted into the proposal.

Both Employee 2 and Employee 4 were familiar with the RFP process. Although Employee 4 denied any involvement in preparing the RFP, he was told by others that Andy Sonderman drafted the RFP and that Employee 5 had contributed his job description from JDOG Marketing, which was used in the RFP.

Employee 2 also confirmed that Sonderman had drafted the RFP with some assistance from her, Employee 5, Tom Smith, and possibly Jonathan Harrington. Employee 2's primary role was to pick up the RFP drafts from Sonderman and deliver them to Richard M. Osborne for his review and edification.

Rehmann CIS, during its review of emails related to the Utilities, came across an email from Richard M. Osborne's attorney, Melvin Resnick. The email was directed to Andy Sonderman and copied to Becky Howell, Loraine Cross, and Gregory J. Osborne. The text of the email read as follows:

> in regard to the RFP, Rick's main goal is to have it structured so that the odds will favor JDOG being successful bidder. This is the main key and needs to be discussed in the morning. Thanks, Mel.

The email is dated March 19, 2012.

Employee 2 recalled that Sonderman would frequently copy her and Employee 5 on emails related to the drafting of the RFP. She would question Sonderman about this and its appropriateness in that Employee 5 was obviously a potential bidder on the RFP as a representative of JDOG Marketing.

Rehmann CIS learned that Richard M. Osborne has made numerous attempts to extract money from the Utilities since his removal as CEO and from the Board of Directors. Information was obtained that on September 12, 2014, Jessica Carruthers, at the direction of Richard M. Osborne, emailed two invoices to Jim Sprague. The invoices were to bill for transportation of gas through gathering lines affiliated with Richard M. Osborne's pipeline companies, Cobra and Orwell-Trumbull. The two invoices were for the period 2010 through 2014 in the amounts of $1,470,381.23 and $1,199,749.50. These invoices were never authorized for payment by James Sprague.

Information was obtained that Richard M. Osborne allegedly presented a map to the Board of Directors which contained a sequence of pipelines. Richard M. Osborne told the Board that he was owed $5 million for the Utilities' use of these pipelines. It is believed that the map was drafted by Richard M. Osborne's geologist, Tim Riley, at Richard M. Osborne's request, and that the pipelines do not exist. It is believed that Gregory J. Osborne's administrative assistant, Employee 6, is aware of the fraudulent map.

Rehmann CIS learned during the interview of Employee 5 that during 2010, Richard M. Osborne was no longer satisfied with the 15¢ markup JDOG Marketing was making on gas being sold to the Utilities. Richard M. Osborne had become aware of NEO purchasing gas from a co-op in Ohio by the name of Gatherco. Gatherco was charging the Columbia Appalachia rate plus a $1.50 markup. Richard M. Osborne told Employee 5 he wanted JDOG Marketing to increase its markup to the $1.50. Employee 5 told Richard M. Osborne, as did Employee 4 and Employee 7, that the Commission would not allow the $1.50 markup. Richard M. Osborne insisted, and Employee 5 was forced to change the JDOG Marketing pricing to include the $1.50 markup. Employee 5 advised that invoices should exist that contain the $1.50 markup.

Both Employee 5 and Employee 4 volunteered information regarding the suspicion that Richard M. Osborne sold nearly 100,000 DTHs of gas out of a storage facility back in 2009. There is confusion as to who owned the storage facility, either TCO or Orwell GTS. The primary concern of both Employee 5 and Employee 4 was whether JDOG Marketing owned the gas or if it was the property of Orwell or NEO. It is agreed by both that Richard M. Osborne sold the gas to IGS. Rehmann CIS conducted a review in order to identify journal entries documenting the purchase or storage payments for the gas in question. There was also a review of vendor detail in an attempt to identify storage fees paid on behalf of Orwell or NEO in 2009. None of the research resulted in evidence indicating that the gas was the property of Orwell or NEO.

Employee 8 noted on interview that during the 2010-11 time period, she was involved in preparing the GCR calculations. On "more than one occasion" Employee 8 claims she was told by Becky Howell

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Business wisdom delivered.

and/or Tom Smith her calculations were too low and she needed to "up them a bit." Employee 8 advised when she was told to do this, she would so indicate on the GCR spreadsheet. Employee 8 doubted the spreadsheets containing her notations still exist.

There were documents provided by a former employee, Employee 9, which were referred to during interview. These documents are attached as **Exhibit 58** (contains confidential information). As described by this employee, **Exhibit 58** (contains confidential information) is an aged account receivable noting JDOG Marketing was paid for transporting gas which was maintained in storage. **Exhibit 59** (contains confidential information) is a copy of a credit memo in the amount of $9,488.02. **Exhibit 60** (contains confidential information) is a copy of an invoice dated March 10, 2010. **Exhibit 61** (contains confidential information) is an invoice from NEO noting credit from JDOG Marketing in the amount of $40,335.75.

A former employee in a position to know described the documents marked as **Exhibit 62** (contains confidential information) as pertaining to JDOG Marketing's relationship with GNI. She explained JDOG Marketing did not have the requisite funds, so NEO paid Constellation. Thereafter, JDOG Marketing invoiced NEO and added 25¢ more for gas. A former employee in a position to know believes JDOG Marketing owed NEO an additional $27,000 based on this transaction.

A former employee in a position to know provided documents marked **Exhibit 63** (contains confidential information). She noted Aleris charged just over $160,000 for gas in June/July 2009. NEO "loaned" JDOG Marketing approximately $500,000 to purchase this gas for NEO.

A former employee in a position to know provided documents **Exhibit 64** (contains confidential information) explaining in November 2009 through June 2010 Orwell was purchasing gas for Great Plains from BP, using Orwell credit in the amount of approximately $1.9 million.

A former employee in a position to know provided additional documentation, **Exhibit 65** (contains confidential information), as evidence of other questionable Richard M. Osborne transactions.

Employee 10 provided additional information on interview, mentioned elsewhere in this report. She also advised she managed collections. *On more than one occasion* Employee 10 was told by *Tom Smith* that Richard M. Osborne would take care of an outstanding debt, so she should just wipe it off the books. She recalled this occurring for Big Oats, Ricky Osborne, Jr., Jr. Properties, and Tin Man Storage.

Employee 11 advised Rehmann CIS that during her time at the company, they were paying approximately 25 percent more than necessary to Big Oats because of the sole source agreement. She also noted the Orwell-Trumbull bill was exorbitant.

Employee 11 noted in early 2013 she "booked" four or five credit memos totaling nearly $300,000, with no backup documentation. She believes Employee 1 signed and backdated these to December 31, 2012 to satisfy their auditors.

Recommendations

Rehmann CIS noted several areas for enhancement to the existing internal control structures and other processes, including the preparation of the GCR calculations.

- Providing preferential treatment to Great Plains for volume on North Trumbull from producers directly connected to the pipeline or any gas from producers directly connected to a pipeline, distorts the market price of gas and is a discriminatory practice that should be evaluated for GCR filings.

- The effect of the lack of competitive bidding from August 2010 through July 2013 and awards to JDOG Marketing should be evaluated for GCR filings.

- Past GCR filings should be evaluated for known pricing errors and instances where contracts were awarded to higher priced bidders.

- Rehmann CIS recommends that the $66,991 shrinkage cost charged by a related party be evaluated for contractual obligation and potentially returned to Orwell.

- GNI should develop a reorganization strategy that provides greater efficiency, accountability, and transparency. Two such strategies are (1) to create a functional organization aligned along the business lines of gas distribution, pipelines, and gas marketing, and (2) to segment along regulated and unregulated business lines with the latter, being created using either a profit center or service center model. Execution of the strategy will take a number of years because of contractual constraints.

- Rehmann CIS recommends that all intercompany expenditure and sales transactions be supported by an Intercompany Agreement signed by senior management of the company providing the intercompany service and by the senior management of the company receiving the intercompany service. These agreements should be presented to the Board of Directors for approval.

  Intercompany billed overhead charges should be first approved as to pricing in an agreement and then approved in monthly invoices and paid timely.

- We strongly recommend that if purchases are made from a related party, then controls are put in place to verify that the individual who prepared the bill is different than the individual who approves the invoice on behalf of the Utility. Due to the high-risk nature of these invoices, we also believe that they should be accompanied by sufficient documentation which clearly substantiates the delivery/receipt of the gas and an analysis that indicates that the rate charged for the gas was reasonable.

- Rehmann CIS strongly recommends that the Utilities consider working with PUCO to design a new spreadsheet to assist in the calculation of the GCR on a monthly basis. We believe that the existing spreadsheet, as currently designed, is overly complex. Furthermore, we believe it is very difficult to determine the source of information and how data flows through the

spreadsheet. It is preferred the Utilities design a new spreadsheet that would simplify the presentation of the relevant data points, enhance its auditability, and eliminate unnecessary information. We believe, due to prior audit findings, it is critical that the Utilities solicit feedback from PUCO prior to implementing the new spreadsheet. Ideally, this spreadsheet would also identify the source of the information used in calculating the GCR. It appeared that in many instances the labels that were used to describe the source of information were inaccurate or incomplete.

- Based on the numerous corrections noted, both during the PUCO audits and during our audit, Rehmann CIS believes the Utilities lack adequate review processes over the GCR. We believe that a thorough detail review should be performed prior to filing the monthly GCR statement. Ideally, this review would include verification of figures against source documents in order to verify that the figures presented were accurate and a review of the formulas within the spreadsheet.

- Rehmann CIS recommends competitive bids be sent out for when a related party is a potential provider of the goods or services. Bid requirements should be defined in a competitive bid policy and authorized by senior management for single purchases and also for expected continuous purchases from prospective bidders. The Board of Directors should then approve the bid policy.

- We recommend that the Utilities maintain a binder, either electronic or paper, containing all of the supporting documentation that was used during the GCR calculation. We believe that this will enhance the accuracy of the figures and the auditability of those numbers.

- The Gas Supply Bid sheet should provide transparency, and an accurate, complete, and traceable record of competitive bids.

- The Utilities may want to consider the creation of a secure database to contain historical figures included in the GCR calculation. During our analysis, we noted numerous instances where there were subsequent modifications to historical figures. Some items to potentially maintain in this database include: monthly sales volumes, monthly free gas volumes, monthly purchase volumes, monthly purchase totals, past EGC rates, and expected gas prices, by supplier. If properly deployed, this could significantly enhance the consistency and reliability of figures used in the GCR calculation.

- The Utilities develop a protected server or other mechanism to save the final version of the Excel workbooks used to perform the GCR calculations. During our analysis, we noted numerous instances where the figures included in the Excel spreadsheet provided did not agree to the actual filing. Furthermore, these modified (and incorrect) figures were used as the basis for subsequent GCR filings, resulting in additional errors. When we asked for copies of the spreadsheets that were originally used to create the GCR filings, we were told many of them were inadvertently overwritten and no longer comport with the filed figures. We are aware that the Utilities have begun to develop and implement alternative controls (namely, access controls) in order to reduce the likelihood of recurrence.

- Rehmann CIS recommends the Compensation Committee of the Board approve pay increase percentages by class of employee for all Ohio Utility employees. In addition, all GNI employees and employees of GNI subsidiaries who allocate labor to the three Ohio Utilities should have their pay increases approved by the Compensation Committee of the Board and placed on file with the three Ohio Utilities. Additionally, Rehmann CIS recommends to further strengthen payroll internal controls a payroll accounting distribution report be produced and reconciled each pay period to gross pay distributed to employees.

- Rehmann CIS recommends that the related party account balances be reconciled at least quarterly and confirmed with related parties at least annually. Any disputes over balances between the Ohio Utilities and related parties should be resolved by the Board of Directors, particularly when both of the parties are subsidiaries of GNI. Furthermore, we recommend that balances of these accounts be communicated with the Board of Directors at least quarterly.

- While on site Rehmann CIS recommended that the network drive be limited to authorized financial reporting personnel on a "need to know basis." This correction was made during the investigative audit. Evidence of the corrective action was requested but not received as of this report date.

- GNI should create a Corporate Controller position in GNES that reports to the CFO and provides separation from the non-regulated entities of GNI.

- Change in retention/shrinkage percentage by intrastate operators should be submitted to the PUCO, with supporting detail, for review and approval.

- Intrastate gas system operator's tariff should show the allowed retention/shrinkage percentage.

- The pipeline transportation tariff should require the pipeline operator to correct meter measurement errors to zero and detail credit or debit corrections to imbalances on shipper invoices.

- The Utilities should reconcile their revenue between the general ledger and the Daily Invoicing Report on at least a quarterly basis. During our analysis, we noted sizable differences between these two reports; when we inquired about the source of these differences, we were told that the Daily Invoicing Reports were on the cash basis while the general ledger was maintained on the accrual basis. Based on our understanding, this type of reconciliation is not currently being performed. A similar reconciliation should be performed for gas purchases and other costs included in the GCR.

- Rehmann CIS is aware that certain members of management have access to corporate cars. We recommend GNI clearly define which corporate entities benefit from these vehicles and verify that the costs of these vehicles is appropriately borne by those entities. Costs to consider include lease payment, car payment, insurance, gas, repairs, and maintenance. We believe that this allocation should also be approved by independent members of the Board of Directors. We also believe that the Board of Directors should approve each individual who receives a corporate vehicle.

- Employees with management responsibilities should receive training on recognizing potential conflicts of interest and company policies governing affiliate transactions.

- During our review of the codes of conduct, we noted several employees who did not have signed codes of conduct on file. We recommend that the Utilities establish procedures to verify that all new employees sign a code of conduct upon employment. Ideally, employees should be requested to re-acknowledge their code of conduct annually. We also recommend that the Human Resource department conduct annual reviews of their files to ensure that all employees have a current code of conduct.

- Human Resources should develop formal job descriptions for management personnel that include minimum qualifications, duties, responsibilities, and accountability.

- Rehmann CIS recommends GNI consider establishing an in-house internal audit department. If established, this department should report to the Audit Committee. Internal audits of the three Utilities should be performed annually based on an Audit Committee approved internal audit plan.