



PEOPLE
to KNOW

2014 STATE OF THE INDUSTRY ENERGY EDITION

The **6** KEY AREAS
impacting **energy** today.

 CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

ENERGY LEADERS AROUND THE TABLE

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2014 **STATE OF THE INDUSTRY** ENERGY EDITION

Welcome to our *lite* paper, an observation on the state of the industry, offered by People to Know in Energy.

At Clark Schaefer Hackett, we're proud to be industry specialists. We dig deeply into the industries we serve and share the resulting insight for the good of our clients and communities.

When we gathered the select few recently named "People to Know in Energy," we were privy to profound thought, unique perspectives, and intelligent understanding.

These energy leaders, recognized as the most influential in Central Ohio, illuminated the universal trends, challenges and opportunities seen nationally across the sector today.

The issues impacting energy today, also reflect our society, business and culture.

Exactly how these issues will shape our future is the question that remains.



2014 STATE OF THE INDUSTRY

ENERGY EDITION

There is little room for discussion about the enthusiasm of a resurgent energy market in Ohio, driven by exploration of the Utica shale. People are talking about it, companies are investing in it and new jobs are being created because of it.

The oil and gas industry runs in peaks and valleys historically, and right now, it is peaking.

Lacking in the good-news category are skilled workers to fill thousands of available and expected positions in the industry. Amazingly, observers say one prohibition in finding employees is drug use among applicants. Since 2011, the number of core jobs in Ohio's oil and gas industry has increased by 56 percent and the number of companies in the sector rose by 22 percent, according to state data released at the end of 2013. Those numbers don't take into account ancillary services that cater to the industry's needs. Other states are watching how Ohio handles its expected natural gas glut. On the flipside, Ohio Gov. John Kasich in June signed Senate Bill 310 that froze renewable energy standards adopted in 2008. It called for utilities to reduce energy consumption by 25 percent and ensure 12.5 percent of their energy portfolios were derived from renewable resources. **The June bill puts the standards on hold and lets legislators study the issue once again.** Amid the industry changes are commercial and residential consumers who are left to navigate what can be a sea of confusion when it comes to choosing what energy program works best for them.



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ENERGY AND THE OHIO LANDSCAPE



Teresa Ringenbach
Direct Energy

The regulatory environment is inconsistent. In 2008, Ohio Senate Bill 221, which we aggressively fought against, became law and created a situation that dictates businesses re-examine their business plans every three years because of how the law is written. Anybody that runs any business knows you don't run your business in three-year increments. It is a barrier to more aggressive investment in the state. I know that my company has invested a lot, and I know that other companies have not because of it. **It needs to be fixed and a more permanent structure statewide needs to be put in place.** For instance, the markets today are moving toward energy auctions, where everything is market based and you are competing on a level playing field. On the other hand, there are distribution utilities that file rate plans that buy power at 15 cents (per kilowatt) and charge all customers 6 cents per kilowatt for the life of the rate request. The rate plan also lets them recoup the 9-cent difference from those same customers over an extended period of time. You can't make a long-term business decision under that scenario. That's the fundamental flaw with Senate Bill 221.



Steven Giles
Hull & Associates

The regulatory challenge for Ohio is the inconsistency of its energy policies. Senate Bill 221 was passed in 2008 and provided a renewable energy platform, which many groups rallied around. Senate Bill 315 came out a couple of years later and modified and enhanced Senate Bill 221. Then, Senate Bill 310 comes out and totally puts a halt to it all, all within a five-year period. In addition to the regulations and the three-year filings that utilities are doing, it is difficult to create a reliable business plan in the alternative energy sector. From a business perspective, we've cautiously invested in these projects. **It's a moving target, and that is a challenge I don't see getting resolved anytime soon.**

ENERGY AND THE OHIO LANDSCAPE



Trish Demeter
Ohio Environmental Council

Senate Bill 310, signed into law by Gov. John Kasich in June, was a huge detriment to all the progress that we made on the environmental and economic development opportunities for alternative energy companies. We'll be back at it two years from now with another two years of debate and the 132nd General Assembly with legislation. **That uncertainty is terrible for the private sector, for the environmental advocate and for the impact that electric utility regulation can have on improving air quality in Ohio.** We know the renewable portfolio standards, energy efficiencies and resource standards outlined in Senate Bill 221 delivered exactly what they were intended to deliver in terms of improved air quality. We are talking about 40,000 tons of avoided nitrogen oxide and sulfur dioxide emission. Those are the things that cause asthma and other respiratory illnesses. The intent of those standards was to hedge against future volatility in electricity markets and on the energy efficiency side, while slowly building diversity into our electricity portfolio. Regardless of the renewable standards, Ohio is still going to be a state that gets about 70 percent of its electricity from coal, and 10 to 15 percent from natural gas. It is not about renewables taking over, or efficiency or undercutting the bottom line for utilities. **It is about protecting consumers and also improving air quality, because that power sector can do so much to improve the air quality for Ohio.** I think it was a success.



Steven Giles
Hull & Associates

It is really important for consumers to understand the relationships between the legislature and the energy industry. Even though I worked for AEP for a long time, it's interesting to sit in on the legislative hearings. The utilities stand in front of the Public Utility Committee and represent themselves as protecting the customers. Most customers don't want their utility company being their spokesperson and protecting them. The customer needs to understand that they actually do have a voice, but it has to be through the legislature – their state senator or house representative. **Utilities have an important role and do a good job of providing reliable power, but that does not make them consumer advocates.**

ENERGY AND THE CONSUMER



W. Jonathan Airey
Vorys, Sater, Seymour and
Pease LLP

It would be nice if there was some fact-based discussion about horizontal shale development.



Steven Giles
Hull & Associates

Energy is such a broad term, incorporating everything from green energy to the oil and gas industry. We need to be more precise when using the term “energy” and should be more specific to the type of energy being discussed. The term “energy” can elicit myriad interpretations depending on the consumer.



Teresa Ringenbach
Direct Energy

Consumers are less likely to return to the utility once they have chosen an alternative supplier. This has been an evolution since 2001 and just in the past three years the data show an increase in independent choosing. The Public Utilities Commission of Ohio recognized this, and last year they spent a lot of time putting together information that was less focused on warnings and more about providing consumers with tips for selecting an option for electricity and the best supplier for them. Now, that consumer may switch providers once he’s left the utility, but the challenge is getting him to take that first step.

ENERGY AND THE CONSUMER



Rhonda Reda
Ohio Oil and Gas Energy
Education Program

Communicating to consumers what the industry jargon actually means will go a long way in advancing the goals of energy-based companies and organizations. It's really getting them to understand the terminology. For example, we work with 70 Ohio colleges and universities across the state and have one that wanted to create a fracking program. So I asked, "Is that a two-year petroleum engineering program?" They said it was not; it was a fracking program. It happens at the business level, as well. What nobody understands is that by using incorrect jargon, they might be shutting a door as opposed to opening one. **There is a lot to be said about understanding.** When we ask people – doesn't matter if it's a third grader or CEO – where does energy come from, there are two difficult concepts to relay: One, energy does not come from those two little holes in the wall, and two, trying to explain what is going on 4,000 or 14,000 feet under the ground. It is very difficult and it just goes back to the basics.



Thomas Tugend
TGT & Associates LLC

It is amazing what the print media and the Internet do in relation to driving these issues. I can go anywhere in the U.S. that has heard about hydraulic fracking and talk to well-educated people, but **what they are picking up is a negative understanding and inaccurate information about the process of hydraulic fracturing.**



Geoffrey Arthur
Broad Street Energy

Well construction is a big issue for our industry that the public really needs to understand. Some of these wells have been on property for 40 to 50 years. Oil drilling is nothing new in Ohio, but too many people are unaware of its historical past. Today, when talk turns to energy, it is all about oil and gas because that is what is going on in Ohio and it is all about fracking right now, so it's not unusual for the public or those who have wells on their properties to be asking questions.

ENERGY AND THE WORKFORCE



Rhonda Reda
Ohio Oil and Gas Energy
Education Program

Ohio has done a disservice to the trades. In the state right now, some 2,000 welders are needed, but we do not have 2,000 welders who are qualified and trained. Twenty-one percent of high-school graduates will earn a four-year college degree. Most will not and will drop out after their first year. We really need to do something to focus on those trade areas because in the oil and gas industry, it's one of the top positions where help is needed. We don't have an unemployment issue in Ohio, we have an unemployable issue. Part of the problem is drugs. In the industry, we've seen companies where 80 percent of potential new hires failed the drug test. Employment has increased, but the numbers don't reveal the people turned away because of drug use. This is a message worth stressing at every workforce entry point.



W. Jonathan Airey
Vorys, Sater, Seymour and
Pease LLP

A workforce with a skills gap provides opportunity. A couple of years ago, one of the midstream pipeline contractors had an experienced welder that made \$270,000 for the year and worked about 3,200 hours because they couldn't find other certified, qualified welder with that kind of opportunity.



Teresa Ringenbach
Direct Energy

Have the trades been completely forgotten? **There is an aging workforce out there, and who is going to step in when they are gone?** In our company, we train our employees so that they eventually can own their own franchise. Our HVAC technicians, plumbers and electricians report that when they travel to high schools and job fairs they are trying to convey that you could be a business owner if you go down this path. You don't need a degree; you could eventually own your own business. But even if kids do express interest in something like that, they believe they should have that four-year college degree, which is a status issue.

ENERGY AND THE WORKFORCE



Asim Haque

Public Utilities Commission of Ohio

Trying to make opportunities in the energy industry attractive to younger generations is very challenging. It's similar to the manufacturing industry, as I used to serve as counsel for Honda. Honda has done an excellent job over the years in establishing partnerships with local schools and at various job fairs to make younger people aware of the opportunities at the company that can represent true stability and growth. Why did Honda do that? Because they were having trouble attracting younger employees right out of high school or with a few years of collegiate experience. So the question becomes: **How does a thriving energy industry make these jobs attractive to younger generations when kids may not think jobs in the energy industry are "cool," even though these jobs are stable with tremendous growth potential?**

ENERGY CHALLENGES



Asim Haque
Public Utilities Commission of Ohio

There are a number of cooks in the kitchen with respect to how energy laws and regulations end up being implemented. The PUCO is subject to what the legislature does. We are subject to what the Federal Energy Regulatory Commission does, what Congress does and what the EPA does as well. We are all collectively forced to deal with these different bodies and their different decisions. It is not easy; it is a real gauntlet. And the competencies in those bodies are different. It is really a challenge, and at the end of the day, we are forced to deal with what we get. Without commenting on the substance of Ohio Senate Bill 310, I will say that passing it could not have been worse timing with what was happening both at FERC and federal EPA at that time. And this is evidence of how many different governmental bodies get to weigh in and impact energy policy for this state.



Teresa Ringenbach
Direct Energy

Customers who want to provide their own power face a hill of obstacles from the distribution utilities. **There are many barriers for those that want to use rooftop solar, wind, combine heat and power, waste energy or any other distributed resource. They want to generate their own electricity to meet their individual needs.** But distribution utilities can throw up so many barriers that dissuade or maybe even prevent customers from doing so. There are still problems with interconnection issues, although they have improved in Ohio; standby rates are all over the board, with each utility charging whatever it chooses; and the tariffs are confusing. One needs an attorney or team of attorneys to decipher what it all is. It is not consistent across each utility. This puts the customer at a real disadvantage.

ENERGY CHALLENGES



Steven Giles
Hull & Associates

Customer choice is a challenging issue in this industry. **Within the alternative energy market, regulation limits a customer's choice.** Consumers also face challenges with electric retail suppliers, which often tighten consumer contracts prohibiting them from installing their own generation such as solar or combined heat and power. I understand the supplier is looking at hedging strategies, but from the customer's standpoint, there needs to be more flexibility. Many customers just throw up their hands because they can't figure out from a contract what's allowed or not allowed. We spend time analyzing the supply contracts. If it has preclusions in it, we try to work with the retail supplier to allow the customer to proceed with their alternative energy project. Additionally, the distribution utility and whether it is an investor-owned, municipal electric company or a rural cooperative can impact the process and viability of developing an alternative energy project. **The process is complicated and cumbersome, which pushes most consumers away.**

ENERGY TOMORROW



Steven Giles
Hull & Associates

There are some changes that could facilitate broader energy implementation, which don't cost a lot and which give customers options. For instance, right now we have the most ineffective electric rate structures in the country. A consumer pays the same rate for electricity whether it is 2:00 in the afternoon and 90 degrees outside or 2:00 in the morning and 55 degrees. There are no supply-and-demand economics built into the rate structures, which creates inefficiencies. Letting the consumer switch over to effective time-of-day rates should be an available option and would allow the customer to more proactively manage their electric energy. As that concept gets pushed forward, alternative energy projects like solar become price competitive without mandates or incentives.



Teresa Ringenbach
Direct Energy

Smart meters are the future. In a case that went before the PUCO in which my company participated, a commissioner-ordered investigation concluded that every utility with smart meters must figure out a way to give data to the customers and also to their suppliers. Furthermore, any utility that does not have the meters should figure out a way to do a time-released program until they have meters available. I think we are definitely going down that path. Smart meters provide time-of-use data that will benefit consumers and suppliers alike in their energy-consumption plans. **We're living in a world where people pay more attention to energy than they ever have.** The landscape for consumers is a pretty different world than where we were just five years ago. Technology is helping the industry and consumers think about energy in creative ways versus just cautioning the utility to ensure their bill wasn't too high.

ENERGY TOMORROW



Asim Haque

Public Utilities Commission of Ohio

My hope is that the culture changes with respect to how consumers think about their energy consumption. Smart meters should be part of that culture change and that future. At the consumer level, however, the PUCO has received a lot of push back on smart meters related to privacy concerns. **This issue requires serious consumer education.** I think once people start using these smart meters and start to realize the benefits of monitoring and managing consumption, there will be a shift in that culture.



Sherri Loscko

Riverside Energy

A better understanding of peak load contributions in the business sector is starting to play a role in energy management. **Industrial and commercial customers are starting to understand it and how it affects the supplier prices and what they can do about it.** There are more options available to them than residential consumers, simply because of their size and impacts on electricity usage. The industrial and commercial customer can receive from their suppliers a time-of-day rate and even an hourly rate.

ENERGY VIEW OUTSIDE OHIO



Trish Demeter
Ohio Environmental Council

With Senate Bill 310, Ohio became the first state to roll back its energy portfolio standards. I'm not sure that was a good thing for our reputation. **It's a shame that for the next two years at least, wind energy is not welcomed in the state.** Before SB 310, Ohio was the top state for the wind energy supply chain with 62 manufacturers making pieces and parts for it. There definitely was a lot of attention.



Steven Giles
Hull & Associates

Ohio is one of the top four or five energy consuming states in the U.S. We should be leaders because we are using it the most. We also have the headquarters of First Energy and American Electric Power, which are two of the largest electric utilities in the country. We have a presence of Duke Energy, also a top 10 electric utility, and AES, one of the largest independent power producers. Additionally, we're on the forefront of becoming one of the major oil and gas producers in the country. By all of those metrics, we should be leading the country's policy making, not taking a wait-and-see approach.



Teresa Ringenbach
Direct Energy

When I talk with legislators in other states, they want to talk about gas and what Ohio is doing with the industry and issues, such as taxes. They want me to fill them in. It may not be an issue in front of them, but it is something that they are thinking about and they are looking at how Ohio's doing it. Even on the retail gas side. Ohio does auctions for default service. Commissions in other states want to do auctions. **They look at Ohio and say they have a model that seems to be working.** We have a lot of companies participating that seem to all get along. They want to know how we are making that happen.

ENERGY VIEW OUTSIDE OHIO



Rhonda Reda

Ohio Oil and Gas Energy
Education Program

People are looking to Ohio. **We are known for having some of the strictest regulations.** They want to know what is going on with infrastructure, whether we are doing projects on investment, whether we are working on jobs or working on education. We hear that constantly, and I think that is a compliment. You have to have a strong regulatory system; it has to be there because things have to be done right.



W. Jonathan Airey

Vorys, Sater, Seymour and
Pease LLP

If trends continue, we are going to be producing out of Utica shale all of the natural gas Ohio uses. It is on an annualized basis. There will be peaks and valleys and questions about storage, but **I never thought we would get to a spot where Ohio is not importing natural gas.** That's about a year away and a huge change of the dynamic occurring in the gas market.

ABOUT **CLARK SCHAEFER HACKETT**

OUR FIRM Founded in 1938, Clark Schaefer Hackett is one of the 65 largest CPA and advisory firms in the U.S. We offer best-in-class technical expertise in audit and assurance, risk management, benefit plan consulting, forensic and litigation support, valuation and transaction services. We combine the insights and ideas of multiple disciplines to provide solutions in a wide range of industries, including manufacturing, construction and real estate, distribution, healthcare, financial services, as well as government entities, higher education institutions and not-for-profit organizations.

INDUSTRY SPECIALIZATION We align resources by industry to better serve the needs of our clientele. Specialization permits us to develop deep knowledge of the issues facing our clients and to anticipate needs based on our understanding of industry trends. We select a team that best fits the needs of the client from our strong bench of firmwide industry specialists.

RELATIONSHIPS MATTER We believe that doing the work and serving the client are not necessarily the same thing. One is about a talent for numbers, the other is about interacting with people. At CSH, relationships matter, and we believe that creating a supportive, helpful, working relationship is perhaps the most valuable talent we can offer.

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CSH AROUND THE TABLE **FOR ENERGY**



ED WALSH

Shareholder

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Ed Walsh is the Shareholder-In-Charge of the CSH Columbus office. Ed started his career with a "Big Four" accounting firm more than 25 years ago. His healthcare experience includes accounting, tax return preparation and planning, and strategic planning for physicians, dentists and other ancillary healthcare providers. Ed has chaired the firm's Healthcare Industry Group and currently serves on the firm's Executive Committee and Strategic Planning Committee. He has extensive experience with business start-up issues, mergers and acquisitions, as well as auditing and taxation for these clients.



MARK GAUDET

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Mark Gaudet serves as an advisor to corporate executives, high net worth families, and closely-held businesses and their owners. He assists clients with their income, estate and gift taxation planning, as well as compliance matters. Mark is a senior member of both the Firm's Personal Wealth Planning and Executive Assignment Groups, which specialize in asset planning strategies. He has been a Certified Financial Planner, CFP®, since 1996. Over the years, he has assisted many executives with various aspects of financial planning, ranging from comprehensive plans to modular financial plans.



DON JOYCE

Manager

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Don Joyce works with small and mid-size businesses, from sole proprietors to corporations, to provide individual and payroll tax services. He is familiar with a variety of industries, including restaurants, construction and oil & gas. A certified QuickBooks Pro Advisor, Don provides assistance with QuickBooks and Peachtree, and advises on issues related to bookkeeping. He has prior experience with compilations and reviewed financial statements, as well as agreed upon procedures.



TOM GIUSTI

Principal

tgiusti@cshco.com

Tom Giusti's practice has a particular emphasis in the oil and gas industry, a sector he began learning about when he started his accounting career at Coopers & Lybrand 45 years ago. Now a recognized leader in both tax and assurance services to the oil and gas industry, Tom is a frequent speaker on the subject. In 2010 he co-authored and presented a tax and audit continuing education program for the Ohio Oil and Gas Association. The well-received seminar greatly surpassed attendance expectations and was highly praised by participants.





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CLARK SCHAEFER HACKETT
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