



The Public Utilities Commission of Ohio

Ted Strickland, Governor
Alan R. Schriber, Chairman

*Monitoring marketplaces and enforcing rules to assure safe,
adequate, and reliable utility services.*

Commissioners

Ronda Hartman Fergus
Valerie A. Lemmie
Paul A. Centolella
Cheryl Roberto

January 8, 2009

To Whom It May Concern:

The attached document was approved by the Public Utilities Commission of Ohio at its meeting held on January 7, 2009. Unfortunately, the date stamp on the last page of the document that shows when it was entered into the Commission's Journal displayed the year 2008, instead of 2009. As Secretary to the Commission, I have corrected the date on the original document and initialed the correction.

A copy of the document with the 2008 date was mailed to you yesterday. Please discard that document. The attached document reflects the corrected date and should, to the extent necessary, be retained by you.

I apologize for any inconvenience this may have caused you. If you have any questions, please contact the Commission's Docketing Division at 614-466-4095.

Sincerely,

A handwritten signature in cursive script that reads "Renee J. Jenkins".

Renee J. Jenkins
Secretary

Enclosures

This is to certify that the images appearing are an
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document delivered in the regular course of business.
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THE PUBLIC UTILITIES COMMISSION OF OHIO

OPINION AND ORDER

Section 4905.302, Revised Code, also directs the Commission to establish investigative procedures, including periodic reports, audits, and hearings; to examine the arithmetic and accounting accuracy of the gas costs reflected in the company's gas cost recovery (GCR) rates; and to review each company's production and purchasing policies and their effect upon these rates. Pursuant to such authority, Rule 4901:1-14-07, O.A.C., requires that periodic financial audits of each gas or natural gas company be conducted. Rule 4901:1-14-08(A), O.A.C., requires the Commission to hold a public hearing at least 60 days after the filing of each required audit report, and Rule 4901:1-14-08(C), O.A.C., specifies that notice of the hearing be published throughout the company's service area at

least 15 days and not more than 30 days prior to the date of the scheduled hearing by: (1) a display ad in a newspaper or newspapers of general circulation; (2) a bill message on or insert included with the customer bills; or (3) a separate direct mailing to customers.

On January 16, 2008, the Commission initiated this proceeding by the issuance of an entry which established the financial audit review period, the date of hearing, and due dates for various filings, and directed the company to publish notice of such hearing. Pursuant to the Commission's entry and Rule 4901:1-14-07(C), O.A.C., the staff of the Commission (Staff) submitted its report of this matter on September 24, 2008. The audit report reviews the audit period March 1, 2006 to February 29, 2008 (Commission-ordered Ex. 1 at certificate).

The public hearing on this matter was held on December 16, 2008 at the offices of the Commission. At the hearing, the company and staff of the Commission submitted a stipulation and recommendation (Jt. Ex. 1 or stipulation) which, if adopted, will resolve all of the issues in this case. Also, Suburban filed proof that notice of the hearing was published in Delaware, Hancock, Henry, Lucas, Marion, and Wood counties, pursuant to Rule 4901:1-14-08, O.A.C. (Suburban Ex. 1). No public witnesses appeared at the hearing to offer testimony.

AUDIT REPORT:

In the certificate of accountability, staff stated that it examined the company's GCR rates for the three-month periods ended May 31, August 31, and November 30, 2006; February 28, May 31, August 31, and November 30, 2007; and February 29, 2008 (Commission-ordered Ex. 1 at certificate). Staff concluded that Suburban had accurately calculated the GCR rates for those periods in accordance with Chapter 4901:1-14, O.A.C., and related appendices, except as noted in the audit report (*Id.*).

According to the audit report, Suburban operates one jurisdictional service territory that is referred to as the SCOL system and one home rule service territory that is referred to as the CORE system (*Id.* at 2). The SCOL system is operated primarily in Delaware and Marion counties and serves approximately 9,739 customers under Commission-approved rates. The CORE system serves approximately 5,681 customers primarily in Henry, Lucas, Wood and Hancock counties. Suburban also has a special agreement in place with Columbia Gas of Ohio (Columbia) for a selected group of sales customers who are billed under Columbia's prevailing GCR rate (*Id.*).

Staff noted that Suburban combined its CORE and SCOL filings into a single filing in March 2005, pursuant to the Commission's directive in Suburban's 2004 GCR proceeding, Case No. 04-214-GA-GCR, in determining its capacity and commodity requirements (*Id.* at 3). Suburban filed combined GCR rates for the entire audit period.

With regard to the company's calculations of the Expected Gas Cost (EGC), staff made the following observations and recommendations concerning supply sources, purchase volumes, and sales volumes:

Staff noted that, in February 2007, Suburban issued a request for proposal (RFP) to solicit bids for management of natural gas supplies, transportation, and storage. Suburban reviewed the proposals and selected Atmos Energy Marketing (Atmos) as its gas supply manager for the second half of the audit period.

Staff reviewed Suburban's evaluation of the bids that it received in response to its February 2007 RFP and found that the Atmos agreement appears to provide some level of cost saving. Staff, however, also found that Suburban did not consider the basis differential between Columbia Gulf Transmission (Gulf) and Columbia Gas Transmission (TCO) indices. Staff determined that there was a substantial basis differential that directly affects Suburban's price at the city gate that was not incorporated into Suburban's analysis of the proposals. Staff recommended that the basis differential between Gulf and TCO be incorporated into Suburban's next evaluation of gas asset management offers.

In Case No. 06-216-GA-GCR, the Commission approved staff's recommendation that Suburban place in its GCR filings its monthly purchase volumes. Suburban did not file any monthly purchase volumes during this audit period. Staff again recommended that Suburban place in its combined GCR filings, the purchase volumes for the combined systems (CORE and SCOL) reflecting all volumes purchased on behalf of its GCR customers, net of transportation volumes.

Staff verified that Suburban's SCOL system sales volume totaled 1,918,637 Mcf for the audit period, which is an increase of 230,007 Mcf or 13.6 percent over the 2006 audit. Staff also verified the CORE system sales volume total of 1,272,759 Mcf, which is a decrease of 129,344 Mcf or 9.2 percent from the 2006 audit. Staff noted no errors in the computation of sales volumes contained within the company's GCR filings.

(*Id.* at 3-5).

With regard to the actual adjustment (AA), staff reviewed the applicable purchase invoices, sales volumes, and company-prepared worksheets and noted no differences

between the purchase gas costs that were filed and those verified by staff in the course of this audit. Staff had no recommendations for Suburban's AA calculation (*Id.* at 6).

With regard to the refund and reconciliation adjustment (RA), staff reviewed the calculations contained in each GCR filing within the audit period and verified that a Commission ordered reconciliation of \$(6,837.17) was refunded to customers over four consecutive quarters. Staff also verified that a check of \$43,050 was received from Columbia for over-payment of costs. Suburban did not include the check in the RA, because the company had previously reduced purchase gas costs by the amount of the check. Staff had no recommendations for Suburban's RA calculation (*Id.* at 7).

With regard to the Suburban's balance adjustment (BA), staff calculated the BA and found that the proper rates and sales volumes were used throughout the audit period. Staff found no errors in the company's calculations and had no recommendations for Suburban's BA calculation (*Id.* at 8).

Staff reviewed the company's unaccounted-for gas (UFG) and customer billing. Staff noted that it has incorporated in the company's purchase volumes, volumes associated with transportation services due to the fact that Suburban did not place purchase volumes in its GCR filings. Further, the company's level of UFG reflects a slight positive. Staff had no recommendations for the Suburban's UFG. Concerning customer billing, staff found no discrepancies between the company's meter reading records and its customer billing records and had no recommendations (*Id.* at 9-10).

Staff also reviewed Suburban's operations and management. Staff stated that, as a result of the company's significant customer growth, it recommended to Suburban in the company's 2006 audit "to be vigilant during the next several years to ensure that it is adequately planning for the rapid growth of its system." Staff, however, noted that, given the changing market and overall economic conditions and the overall slowing in new home construction in the company's service area, Suburban should continue to monitor its changing load growth and daily and seasonal requirements. In addition, staff noted that, due to the uncertainty of the availability of firm capacity, Suburban acquired additional firm transportation and storage services to address changing demands on its system. Staff stated that, in January 2006, Suburban added an additional receipt point into its system when it entered into a lease agreement with Del-Mar Pipeline Co. (Del-Mar), an affiliated pipeline connecting Suburban to TCO. Staff noted that, with the addition of the Del-Mar pipeline, pending or potential capacity constraints on the company's SCOL system have diminished or disappeared (*Id.* at 11-12).

Furthermore, staff noted that, in the company's 2006 audit, it had recommended that any costs associated with the Del-Mar agreement be examined in the next audit. Staff stated that, in this audit, it examined the cost of constructing the Del-Mar pipeline along

with the lease payments, which Suburban has sought to recover through its GCR. Staff stated its belief that Suburban's revised, "all-in" cost calculations accurately represent the appropriate initial payment (December 2005) and payments in the years 2006 and 2007, as modified by adjustments due to changes in capital costs, the debt rate, property taxes, and the debt service ratio. Staff, therefore, recommended an adjustment for the years 2006 and 2007 of \$69,523 in the customers' favor to recognize the difference between the annual lease payments billed to Suburban and the company's revised, "all-in" calculated annual lease payments for the years 2006 and 2007.

Staff also recommended that the lease payment for December 2005 be reduced to reflect the company's revised, "all-in" calculated lease payment. Staff noted that, for December 2005, Del-Mar billed Suburban \$103,043 and that the revised, "all-in" calculated lease payment for December 2005 is \$60,905, a reduction of \$42,138 in the customers' favor. Staff noted that the credit for December 2005, added to the credits for the years 2006 and 2007, totals \$111,661 in favor of Suburban's GCR customers (*Id.* at 13-16).

Staff stated its belief that a portion of the Del-Mar annual lease payments should be paid by Suburban's transportation customers for utilizing the Del-Mar pipeline. Staff, therefore, recommended that Suburban credit its GCR customers an additional \$34,178. Further, staff noted that the total credit to Suburban's GCR customers attributable to the Del-Mar lease agreement is \$145,839 (*Id.* at 17).

To complete its audit, staff reviewed Suburban's system growth. Staff stated that Suburban's customer base has grown from 10,786 customers at the end of 2002 to 15,312 customers at the end of 2007. Staff stated that Suburban has passed the 15,000 customer threshold, which now changes some of the filing requirements for Suburban at the Commission. Staff noted that Rule 4901:5-1-02, O.A.C., requires that a major utility furnishing gas to more than 15,000 customers within Ohio shall annually furnish a long-term forecast report (LTFR) to the Commission for its review. Staff recommended that Suburban continue to determine and monitor its changing load growth and daily, seasonal, and annual load requirement needs. Staff also recommended that Suburban should formalize this evaluation through its first formal LTFR filing with the Commission beginning in 2009 (*Id.* at 18).

STIPULATION:

In order to resolve the issues in this proceeding, staff and the company submitted a stipulation for the Commission's consideration. In the stipulation, the parties agree, in pertinent part, that:

- (1) Suburban's Gas Cost Recovery ("GCR") rates were fairly determined in accordance with the provisions of O.A.C. Chapter 4901:1-14 during the audit period.
- (2) Suburban accurately determined and billed the GCR rates for the effective audit period March 2006 through February 2008, in accordance with Chapter 4901:1-14 and related appendices of the O.A.C.
- (3) Suburban's GCR rates were properly applied to customer bills during the audit period.
- (4) A financial audit was conducted by the Staff in accordance with the objectives outlined in Appendix C of Chapter 4901:1-14 of the Ohio Administrative Code. In satisfaction of the requirements of Section 4905.302(C) of the Revised Code, and Section 4901:1-14 of the Ohio Administrative Code, Suburban caused notice to be published in various newspapers of general circulation throughout its service territory for Case No. 08-216-GA-GCR.
- (5) The parties are in agreement with the following recommendations issued by the Staff in its Report to the Public Utilities Commission of Ohio ("Staff Report"):
 - (a) That the basis differential between Gulf and TCO be incorporated into Suburban's next evaluation of gas asset management offers.
 - (b) That Suburban include, in its combined GCR filings, the purchase volumes for the combined systems (CORE and SCOL) reflecting all volumes purchased on behalf of its GCR customers, net of transportation volumes.
 - (c) That there be an adjustment for the period December 2005 through December 2007 of \$111,661 in the customers' favor to recognize the difference between the annual lease payments billed to Suburban and the Company's revised, "all-in" calculated lease payments for the same period.

- (d) That Suburban further credit its GCR customers an additional \$34,178 to recognize the costs not billed to a firm transportation customer for its utilization of the Del-Mar pipeline.
- (e) That Suburban continue to determine and monitor its changing load growth and daily, seasonal, and annual load requirements needs and that Suburban formalize this evaluation through its first formal LTR filing with the Commission beginning in 2009.

DISCUSSION AND CONCLUSION:

Rule 4901-1-30, O.A.C., authorizes parties to Commission proceedings to enter into stipulations. Although not binding upon the Commission, the terms of such an agreement are accorded substantial weight. *Consumers' Counsel v. Pub. Util. Comm.* (1992), 64 Ohio St. 3d 123, at 125, citing *Akron v. Pub. Util. Comm.* (1978), 55 Ohio St. 2d 155. In this case, OCC is not a signatory to the stipulation.

The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. See, e.g., *The Cincinnati Gas & Electric Co.*, Case No. 91-410-EL-AIR (April 14, 1994); *Ohio Edison Co.*, Case No. 91-698-EL-FOR, et al. (December 30, 1993); *The Cincinnati Gas & Electric Co.*, Case No. 92-1463-GA-AIR, et al. (August 26, 1993); *Ohio Edison Co.*, Case No. 89-1001-EL-AIR (August 19, 1993); *The Cleveland Electric Illuminating Co.*, Case No. 88-170-EL-AIR (January 31, 1989); and *Restatement of Accounts and Records (Zimmer Plant)*, Case No. 84-1187-EL-UNC (November 26, 1985). In these cases and others, the Commission has used the following criteria in considering the reasonableness of a settlement agreement:

- (1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
- (2) Does the settlement, as a package, benefit ratepayers and the public interest?
- (3) Does the settlement package violate any important regulatory principle or practice?

The Ohio Supreme Court has endorsed the Commission's analysis using these criteria to resolve cases by a method economical to ratepayers and public utilities. *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.* (1994), 68 Ohio St. 3d 559, citing *Consumers' Counsel, supra*, at 126. The court stated in that case that the Commission may

place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission (*Id.*).

Based on our three-pronged standard of review, we find the first criterion, that the process involved serious bargaining by knowledgeable, capable parties, is clearly met. Suburban and staff have been involved in previous cases before the Commission, including a number of GCR cases. Moreover, these parties have provided helpful information to the Commission in cases regarding fuel-related policies and practices. The settlement agreement also meets the second criterion. As a package, the stipulation advances the public interest by attempting to resolve all of the issues related to the review of Suburban's GCR and fuel-related policies and practices during the audit period. Moreover, the stipulation meets the third criterion because it does not violate any important regulatory principle or practice. Rather, the stipulation includes terms designed to enhance Suburban's ability to provide service to its customers, thereby reducing gas costs and GCR rates. Accordingly, we find that the stipulation should be adopted and approved.

FINDINGS OF FACT AND CONCLUSIONS OF LAW:

- (1) Suburban is a gas company and natural gas company within the meaning of Section 4905.03(A)(6), Revised Code, and, as such, is a public utility subject to the supervision and jurisdiction of this Commission.
- (2) Pursuant to Section 4905.302, Revised Code, and Rule 4901:1-14-08, O.A.C., this proceeding was initiated by the Commission's entry of January 16, 2008, to review the Company's GCR rate.
- (3) The Staff of the Commission conducted an audit as required by Section 4905.302(C), Revised Code, and Rule 4901:1-14, O.A.C., and filed its report on September 24, 2008.
- (4) Pursuant to Section 4905.302(C), Revised Code, and Rule 4901:1-14-08(A), O.A.C., a public hearing was held on December 16, 2008, and the company published notice of such hearing in compliance with Rule 4901:1-14-08(C), O.A.C.
- (5) The stipulation, filed by the parties on December 5, 2008, represents a just and reasonable resolution of the issues in this proceeding, and should be approved by this Commission.

- (6) Except as discussed in the stipulation, and to be corrected in subsequent GCR proceedings, and as found by staff during the audit period, Suburban fairly determined its GCR rates in accordance with Rule 4901:1-14, O.A.C., and related appendices. Further, Suburban's gas costs, which were passed through the company's GCR clause for the audit period, were fair, just, and reasonable.

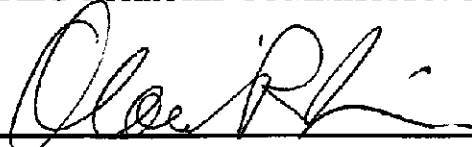
It is, therefore,

ORDERED, That the stipulation and recommendation of the parties be adopted. It is, further,

ORDERED, That the auditor selected to conduct Suburban's next GCR audit shall evaluate how the company implemented the agreements set forth in the stipulation. It is, further,

ORDERED, That a copy of this opinion and order be served upon each party of record.

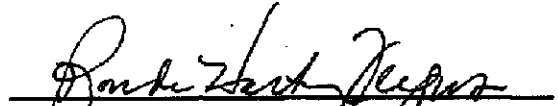
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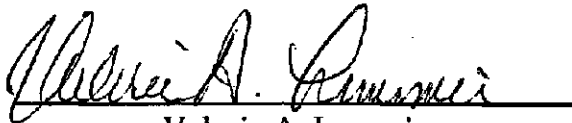
Alan R. Schriber, Chairman



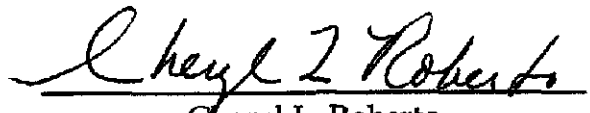
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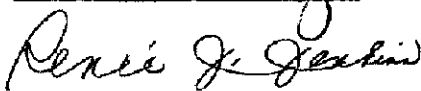


Cheryl L. Roberto

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Renee J. Jenkins
Secretary