

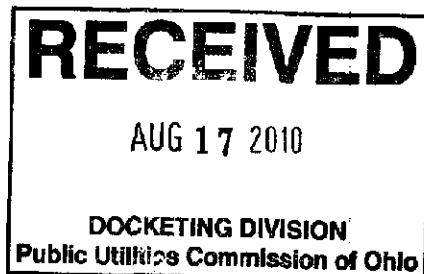
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A report by the Staff of the
Public Utilities Commission of Ohio

Piedmont Gas Company, Inc.
10-213-GA-GCR

Financial Audit of the Gas Cost Recovery
Mechanisms for the Effective GCR Periods
June 1, 2008 through May 31, 2010



Ohio | **Public Utilities
Commission**

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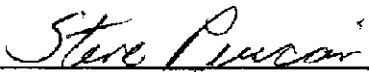
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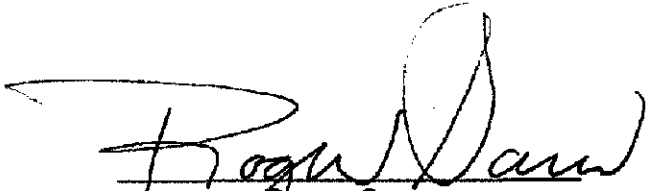
Certificate of Accountability

As ordered by the Public Utilities Commission of Ohio (PUCO or Commission), the Staff has completed the required audit of the Piedmont Gas Company, Inc. (Piedmont or Company) gas cost recovery (GCR) rates for June 1, 2008 through May 31, 2010. The Staff audited for conformity with the procedural aspects of the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, O.A.C and related appendices, and by Commission Entry signed on January 20, 2010 in Case No. 10-213-GA-GCR.

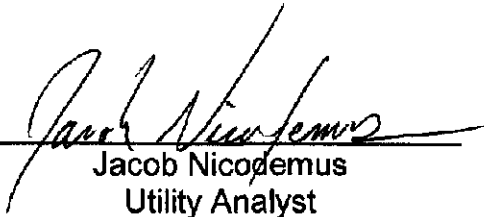
Our audits have revealed certain findings, as discussed in this audit report, which should be addressed in this proceeding. The Staff notes that at the time of preparing this report, unless otherwise noted, Piedmont accurately calculated its gas cost recovery rates for those periods under investigation in accordance with the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, O.A.C, and related appendices, except for those instances noted in the Executive Summary of this audit report. The Staff has performed investigations into these specific areas and respectfully submits its findings and recommendations.



Steve Puican
Division Chief



Roger Sarver
Gas Specialist



Jacob Nicodemus
Utility Analyst

Section I

Executive Summary

Audit Work Program

The audit investigation consisted of several components. Staff initially reviewed and evaluated relevant documents from within the Commission in preparation for the audit. Staff submitted data requests and reviewed and evaluated the Company's responses to those requests in order to understand and evaluate the Company's activities. Staff conducted investigative interviews with appropriate Company personnel at the Company's offices in New Philadelphia, Ohio. Additionally, staff reviewed and evaluated relevant Company documents as necessary to understand and evaluate the Company's activities.

Recommendations

At the time of preparing this report, unless otherwise noted, Piedmont accurately calculated its gas cost recovery rates for the time period discussed in this report. The following is a summary of the Staff's recommendations, which are based on the findings and conclusions presented in this report:

- Staff recommends that the Company re-verify purchase and sales volumes prior to making its monthly GCR filings with the Commission.
- Staff recommends a reconciliation adjustment in the amount of \$32,520 in the customers' favor to account for errors made in the actual adjustment.
- Staff recommends a reconciliation adjustment in the amount of \$152,657 in the customers' favor to account for errors made in the balance adjustment.
- Staff recommends that Piedmont email its GCR filings to Staff for review at least one week prior to filing them with the Commission.

Section II

Introduction

Background

Piedmont Gas Company, headquartered at New Philadelphia, Ohio, received approval from the Public Utilities Commission of Ohio (PUCO or Commission) to operate as a natural gas public utility in December, 1987. Founded and owned by Rick and Jo Mako, Piedmont initially served the village of Freeport in Harrison County. Piedmont continues to expand its operations further into Harrison County & Tuscarawas County. Piedmont also serves customers in Holmes, Coshocton, and Guernsey Counties.

Operations

Currently, Piedmont provides natural gas distribution service to 1,721 customers. Of these customers, 1,519 are residential, 191 are commercial, and 11 are industrial sales customers. Piedmont also provides transportation service to 13 customers.

For the 12 months ending December 2009, sales customers accounted for 299,974 Mcf, or approximately 20% of annual throughput. Transport customers accounted for 1,216,664 Mcf, or approximately 80% of annual throughput. This differs significantly from many of Ohio's small LDCs. Many of these smaller utilities generally have sales volumes representing 80% or more of total system throughput, with the remaining 20% or less of system throughput representing large commercial or industrial transporters.

Historically, the Company primarily has relied upon the availability of locally-produced gas to serve its customers' requirements. Fourteen local producers supplied the Company's supply requirements during the audit period. Most of these supplies are priced utilizing a NYMEX (New York Mercantile Exchange) index with an adder, based on MCFs purchased rather than dekatherms. However, these same supplies typically do not contain any reservation or demand charges.

As a result of mergers and acquisitions, many of Piedmont's traditional suppliers have changed names and ownership such that several producers now are operating under the names of different, usually larger, entities. Piedmont remains alert to additional, new suppliers. Piedmont differs from many other smaller LDCs in Ohio due to the fact that it does not possess nor rely upon interstate pipeline interconnections to fully or partially meet its supply requirements. Because of this fact, Piedmont has turned to Dominion East Ohio (DEO), a neighboring local distribution company, to interconnect with as a source of supply. This provides Piedmont with indirect access to interstate supplies.

During the audit period Piedmont continued to add new distribution mains and further consolidate many of its dispersed customers into a more integrated system. However, the Piedmont system still has many small customer groups that are being served from gathering lines of producers in the area. Piedmont's distribution system is relatively new, and therefore, less prone to leakage. Piedmont utilizes only plastic pipe for its system, including Cinch polyethylene for its mains.

Piedmont utilizes some temperature-compensating meters for its customers. These meters are marginally more expensive than traditional meters. Temperature-compensating meters help to provide more accurate measurement during varying temperatures, especially during cold weather. The use of these meters also helps contribute to Piedmont's ability to more accurately account for its gas sales volumes, further helping to reduce unaccounted-for gas volumes.

Piedmont remains a full member of the Ohio Utilities Protection Service (OUPS, a "one-call" system). As a full member, Piedmont now has a dedicated computer on-site at the Company's office that receives a log of all calls to OUPS for activity in the Company's service area. Previously, as a limited member, Piedmont was notified directly by OUPS only when other utilities were active in the Company's service area. It was up to private individuals to call Piedmont directly once they had been notified by OUPS that Piedmont was operating in the area.

Recommendations

Staff has no recommendations in this area.

Section III

Expected Gas Cost

Staff has reviewed Piedmont's calculations of their expected gas cost (EGC) for the audit period. The EGC mechanism attempts to match future gas revenues for the upcoming quarter with the anticipated cost to procure gas supplies. It is calculated by extending twelve-month historical purchase volumes from each supplier by the rate that is expected to be in effect during the upcoming period. The cost for each supplier is summed and the total is divided by twelve-month historical sales to develop an EGC rate to be applied to customer bills.

In reviewing the Company's calculations of the EGC, the Staff makes the following observations concerning purchase volumes and sales volumes.

Supply Sources

Piedmont's entire system supply requirements come from local Ohio production with the exception of a small amount of gas from Dominion East Ohio. During the audit period the Company purchased from fourteen local producers and Dominion East Ohio to diversify its commodity purchases and to serve some of its smaller non-integrated distribution systems. The local producers are more fully discussed in the Management Issue Section.

Purchase Volumes and Sales Volumes

Staff has verified that Piedmont purchased 314,886 Mcf of gas from the local producers during the first year of the audit and purchased 300,635 Mcf of gas during the second year of the audit. During the first year of the audit period, a slight error was noted in a single month and during the second year of the audit period, the same purchase volumes were reported for two consecutive quarters.

Staff has verified that Piedmont sold 324,068 Mcf of gas to its customers during the first year of the audit and 312,715 during the second year of the audit period. Staff noted four instances of errors in sales volumes reported by the Company in its GCR filings.

Recommendations

Staff recommends that the Company re-verify purchase and sales volumes prior to making its monthly GCR filings with the Commission.

Section IV

Actual Adjustment

The actual adjustment (AA) reconciles the monthly cost of purchased gas with the EGC billing rate. It is calculated by dividing the total cost of gas purchases for each month of the three-month reporting quarter by total sales for those respective months. The result is the unit book cost of gas, which is the cost incurred by the company for procuring each MCF it sold that month. That unit book cost for each month is compared with the EGC rate which was billed for that quarter. The difference between each monthly unit cost and the EGC, whether positive or negative, is multiplied by the respective monthly jurisdictional sales to identify the total under- or over- recoveries of gas costs. The monthly under- or over- recoveries are summed and divided by the twelve-month historic jurisdictional sales to develop an actual adjustment rate, to be included in the GCR for four quarters.

Errors in the actual adjustment calculation can result from incorrectly reported purchase gas costs, errors in the stated sales volumes and from the use of the wrong EGC rate.

Staff has reviewed the applicable purchase invoices and monthly billing registers and as noted in the previous section, found errors in four months' sales volumes. These errors were due to a single month in which a corrected meter reading was not carried through to the actual adjustment, and an instance in which the same sales volumes were filed for two consecutive quarters. Additionally, during one quarter, the Company used an EGC rate other than that which was billed to customers.

Staff and Company AA calculations are shown on Table 1.

Recommendations

The errors detailed above are not self-correcting through the GCR mechanism. Staff recommends that the Commission order a reconciliation adjustment of \$32,520 in the Customer's favor to correct for the differences identified above. This adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

Actual Adjustment Calculation Table I

	<u>Per Staff</u>	<u>Dec-07</u>	<u>Jan-08</u>	<u>Feb-08</u>	<u>AA</u>	<u>Difference</u>
Quarter	Supply Cost \$	\$337,753	\$402,191	\$507,497		
End:	Jur. Sales MCF	37,896	42,055	52,647		
Feb-08	Total Sales MCF	37,896	42,055	52,647		
	Book Cost \$/ MCF	\$8.9127	\$9.5634	\$9.6396		
	EGC\$/MCF	\$7.2998	\$6.6649	\$6.1061		
	Diff. \$/MCF	\$1.6129	\$2.8985	\$3.5335		
	Cost Diff. \$	\$61,122	\$121,897	\$186,029	\$369,048	
	<u>Per Company</u>					
	Supply Cost \$	\$337,753	\$402,193	\$507,497		
	Jur. Sales MCF	37,896	42,055	52,647		
	Total Sales MCF	37,896	42,055	52,647		
	Book Cost \$/ MCF	\$8.9127	\$9.5635	\$9.6396		
	EGC\$/MCF	\$7.2988	\$6.6649	\$6.1061		
	Diff. \$/MCF	\$1.6129	\$2.8986	\$3.5335		
	Cost Diff. \$	\$61,122	\$121,901	\$186,029	\$369,053	(\$4)
	<u>Per Staff</u>	<u>Mar-08</u>	<u>Apr-08</u>	<u>May-08</u>	<u>AA</u>	<u>Difference</u>
Quarter	Supply Cost \$	\$468,051	\$337,771	\$249,379		
End:	Jur. Sales MCF	50,793	36,990	20,758		
May-08	Total Sales MCF	50,793	36,990	20,758		
	Book Cost \$/ MCF	\$9.2148	\$9.1313	\$12.0136		
	EGC\$/MCF	\$7.4536	\$7.9865	\$8.5304		
	Diff. \$/MCF	\$1.7612	\$1.1448	\$3.4832		
	Cost Diff. \$	\$89,457	\$42,347	\$72,305	\$204,108	
	<u>Per Company</u>					
	Supply Cost \$	\$468,051	\$338,774	\$249,379		
	Jur. Sales MCF	50,793	36,990	20,758		
	Total Sales MCF	50,793	36,990	20,758		
	Book Cost \$/ MCF	\$9.2148	\$9.1584	\$12.0136		
	EGC\$/MCF	\$7.4536	\$7.9865	\$8.5304		
	Diff. \$/MCF	\$1.7612	\$1.1719	\$3.4832		
	Cost Diff. \$	\$89,457	\$43,349	\$72,305	\$205,111	(\$1,002)

Actual Adjustment Calculation Table I

	<u>Per Staff</u>	<u>Jun-08</u>	<u>Jul-08</u>	<u>Aug-08</u>	<u>AA</u>	<u>Difference</u>
Quarter	Supply Cost \$	\$181,707	\$145,329	\$82,491		
End:	Jur. Sales MCF	16,351	10,877	8,372		
Aug-08	Total Sales MCF	16,351	10,877	8,372		
	Book Cost \$/ MCF	\$11.1126	\$13.3612	\$9.8535		
	EGC\$/MCF	\$9.8687	\$12.4274	\$14.7004		
	Diff. \$/MCF	\$1.2439	\$0.9338	(\$4.8469)		
	Cost Diff. \$	\$20,340	\$10,157	(\$40,577)	(\$10,081)	
	<u>Per Company</u>					
	Supply Cost \$	\$181,707	\$145,329	\$82,491		
	Jur. Sales MCF	16,351	10,877	8,372		
	Total Sales MCF	16,351	10,877	8,372		
	Book Cost \$/ MCF	\$11.1126	\$13.3612	\$9.8535		
	EGC\$/MCF	\$7.9865	\$8.5304	\$9.8687		
	Diff. \$/MCF	\$3.1261	\$4.8308	(\$0.0152)		
	Cost Diff. \$	\$51,116	\$52,544	(\$127)	\$103,534	(\$113,614)
	<u>Per Staff</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>	<u>AA</u>	<u>Difference</u>
Quarter	Supply Cost \$	\$100,734	\$127,342	\$177,604		
End:	Jur. Sales MCF	10,641	13,779	22,908		
Nov-08	Total Sales MCF	10,641	13,779	22,908		
	Book Cost \$/ MCF	\$9.4663	\$9.2419	\$7.7529		
	EGC\$/MCF	\$10.5985	\$9.0048	\$7.9686		
	Diff. \$/MCF	(\$1.1322)	\$0.2371	(\$0.2157)		
	Cost Diff. \$	(\$12,048)	\$3,267	(\$4,941)	(\$13,722)	
	<u>Per Company</u>					
	Supply Cost \$	\$100,734	\$127,342	\$177,604		
	Jur. Sales MCF	10,641	13,779	22,908		
	Total Sales MCF	10,641	13,779	22,908		
	Book Cost \$/ MCF	\$9.4663	\$9.2419	\$7.7529		
	EGC\$/MCF	\$10.5985	\$9.0048	\$7.9686		
	Diff. \$/MCF	(\$1.1322)	\$0.2371	(\$0.2157)		
	Cost Diff. \$	(\$12,048)	\$3,267	(\$4,941)	(\$13,722)	(\$0)

Actual Adjustment Calculation Table I

	<u>Per Staff</u>	<u>Dec-08</u>	<u>Jan-09</u>	<u>Feb-09</u>	<u>AA</u>	<u>Difference</u>
Quarter	Supply Cost \$	\$359,421	\$351,676	\$310,580		
End:	Jur. Sales MCF	41,478	47,217	58,478		
Dec-08	Total Sales MCF	41,478	47,217	58,478		
	Book Cost \$/ MCF	\$8.6653	\$7.4482	\$5.3111		
	EGC\$/MCF	\$7.3040	\$6.6659	\$6.7261		
	Diff. \$/MCF	\$1.3613	\$0.7823	(\$1.4150)		
	Cost Diff. \$	\$56,464	\$36,937	(\$82,746)	\$10,655	
	<u>Per Company</u>					
	Supply Cost \$	\$359,424	\$561,676	\$310,580		
	Jur. Sales MCF	41,478	47,217	58,775		
	Total Sales MCF	41,478	47,217	58,775		
	Book Cost \$/ MCF	\$8.6664	\$7.4482	\$5.2842		
	EGC\$/MCF	\$7.3023	\$6.6659	\$6.7261		
	Diff. \$/MCF	\$1.3631	\$0.7823	(\$1.4419)		
	Cost Diff. \$	\$56,539	\$36,937	(\$84,748)	\$8,729	\$1,927
	<u>Per Staff</u>	<u>Mar-09</u>	<u>Apr-09</u>	<u>May-09</u>	<u>AA</u>	<u>Difference</u>
Quarter	Supply Cost \$	\$204,670	\$162,156	\$68,945		
End:	Jur. Sales MCF	41,396	29,087	18,580		
May-09	Total Sales MCF	41,396	29,087	18,580		
	Book Cost \$/ MCF	\$4.9442	\$5.5749	\$3.7107		
	EGC\$/MCF	\$5.8011	\$5.6671	\$5.3590		
	Diff. \$/MCF	(\$0.8569)	(\$0.0922)	(\$1.6483)		
	Cost Diff. \$	(\$35,472)	(\$2,682)	(\$30,626)	(\$68,779)	
	<u>Per Company</u>					
	Supply Cost \$	\$204,670	\$162,156	\$68,947		
	Jur. Sales MCF	41,396	29,087	18,580		
	Total Sales MCF	41,396	29,087	18,580		
	Book Cost \$/ MCF	\$4.9442	\$5.5749	\$3.7108		
	EGC\$/MCF	\$6.6659	\$6.7261	\$5.8011		
	Diff. \$/MCF	(\$1.7217)	(\$1.1512)	(\$2.0903)		
	Cost Diff. \$	(\$71,271)	(\$33,485)	(\$38,838)	(\$143,593)	\$74,814

Actual Adjustment Calculation Table I

Quarter End: Aug-09	<u>Per Staff</u>	<u>Jun-09</u>	<u>Jul-09</u>	<u>Aug-09</u>	<u>AA</u>	<u>Difference</u>
	Supply Cost \$	\$54,347	\$50,591	\$42,730		
	Jur. Sales MCF	11,491	9,236	10,082		
	Total Sales MCF	11,491	9,236	10,082		
	Book Cost \$/ MCF	\$4.7295	\$5.4776	\$4.2384		
	EGC\$/MCF	\$4.6835	\$5.5608	\$4.5875		
	Diff. \$/MCF	\$0.0460	(\$0.0832)	(\$0.3491)		
	Cost Diff. \$	\$529	(\$768)	(\$3,519)	(\$3,759)	
	<u>Per Company</u>					
	Supply Cost \$	\$204,870	\$162,156	\$68,947		
	Jur. Sales MCF	41,396	29,087	18,580		
	Total Sales MCF	41,396	29,087	18,580		
	Book Cost \$/ MCF	\$4.9442	\$5.5749	\$3.7108		
	EGC\$/MCF	\$4.6835	\$5.5608	\$4.5875		
	Diff. \$/MCF	\$0.2607	\$0.0141	(\$0.8767)		
	Cost Diff. \$	\$10,792	\$410	(\$16,289)	(\$5,087)	\$1,328
Quarter End: Nov-09	<u>Per Staff</u>	<u>Sep-09</u>	<u>Oct-09</u>	<u>Nov-09</u>	<u>AA</u>	<u>Difference</u>
	Supply Cost \$	\$37,736	\$75,706	\$122,637		
	Jur. Sales MCF	9,121	13,378	23,173		
	Total Sales MCF	9,121	13,378	23,173		
	Book Cost \$/ MCF	\$4.1374	\$5.6589	\$5.2923		
	EGC\$/MCF	\$4.2862	\$4.2464	\$5.5893		
	Diff. \$/MCF	(\$0.1488)	\$1.4125	(\$0.2970)		
	Cost Diff. \$	(\$1,357)	\$18,897	(\$6,882)	\$10,657	
	<u>Per Company</u>					
	Supply Cost \$	\$37,736	\$75,706	\$122,637		
	Jur. Sales MCF	9,121	13,378	23,173		
	Total Sales MCF	9,121	13,378	23,173		
	Book Cost \$/ MCF	\$4.1374	\$5.6589	\$5.2922		
	EGC\$/MCF	\$4.2862	\$4.5476	\$5.5893		
	Diff. \$/MCF	(\$0.1488)	\$1.1113	(\$0.2971)		
	Cost Diff. \$	(\$1,357)	\$14,867	(\$6,885)	\$6,625	\$4,032
					TOTAL:	(\$32,520)

Section V

Refund and Reconciliation Adjustment

The Company does not utilize any interstate natural gas supplies, and therefore, has not had any supplier refunds resulting from changes in FERC filings, etc. The natural gas supplies that the Company purchases are typically fixed price per metered unit and therefore there are no supplier refunds.

As a result of the Commission's Opinion and Order in Piedmont's last GCR audit proceeding, Case No. 08-213-GA-GCR, the Company was ordered to implement a reconciliation adjustment of \$244,267.06 which addressed the differences between the Staff's and the Company's calculated actual adjustment, refund and reconciliation adjustment, and balance adjustment calculations. Omissions in Staff's prior audit calculations were discovered during this audit. These omissions resulted in a reduction to the refund and reconciliation adjustment that was ordered during the prior audit.

Additionally, for seven months out of the audit period, the Company billed approximately twice the Commission-ordered refund and reconciliation adjustment rate. This, in combination with the omissions in Staff's prior audit calculations, resulted in a large over-collection by the Company. The reconciliation of this over-collection is included in the Balance Adjustment section.

Recommendations

Staff recommends that Piedmont email its GCR filings to Staff for review at least one week prior to filing them with the Commission.

Section VI

Balance Adjustment

The balance adjustment (BA) mechanism corrects for under- or over- recoveries of previously calculated AA's and RA's. The BA is calculated by subtracting the product of each respective AA and RA and the sales to which those rates were applied from the dollar amounts of the respective AA or RA previously included in the GCR and used to generate those adjustment rates. Since those adjustment rates, themselves, were derived by dividing the dollar amounts by historic sales, the BA calculation depicts the differences in revenues generated for each of these adjustment mechanisms using actual versus historical sales. The sum of the differences for the AA and RA calculations is the total BA which is then incorporated into the AA calculation.

Errors detected in the balance adjustment are generally the result of incorrectly reported sales volumes, but also may be due to selecting an incorrect previous AA or RA rate for the purpose of calculating a given quarter's balance adjustment. The sequencing of the AA and RA rates was the source of most of the differences found by Staff in this audit and the prior audit. Staff is working with the Company to properly sequence these rates.

As noted in the EGC section, Staff found errors in sales volumes in four months of the audit period. Staff has included the corrected volumes in its BA calculation.

With regards to the prior audit period, it was discovered during this audit that Staff inadvertently omitted some critical information from its calculation of the prior audit's balance adjustment. These omissions have now been fully accounted for and will be reconciled during this audit proceeding and throughout the next audit period.

Recommendations

The differences detailed above are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment in the amount of \$152,657 in the Customers' favor. This adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

Staff also recommends that Piedmont email its GCR filings to Staff for review at least one week prior to filing them with the Commission.

Section VII

Unaccounted-For Gas

Unaccounted-for gas (UFG) is the difference between gas purchase volumes and sale volumes. It is calculated on a twelve-month basis, ending in one of the low usage summer months, so as to minimize the effects of unbilled volumes on the calculation. Chapter 4901:1-14-08(F)(3), Ohio Administrative Code, specifies that the Commission may adjust the Company's future GCR rates as a result of UFG above a reasonable level, presumed to be no more than 5% for the audit period.

The Staff has performed an analysis of the UFG for the twelve-month periods ending November 2008 and November 2009. The Staff used the total sales volume deliveries divided by the total purchase volume receipts to arrive at the systems' average unaccounted-for gas rates. Because on Piedmont's system, transportation customers' purchases are equal to transportation customers' sales, these volumes are excluded from the UFG calculation. The results of the Staff's calculation are shown in Table II below.

The GCR Rule allows for up to five percent UFG. In this case, the UFG level is negative, indicating a difference in the temperature compensated sales meters and the non-temperature compensated purchase meters. The temperature compensated meters tend to be more accurate regardless of temperature changes.

Table II
System Average UFG Rates
(unless otherwise indicated, values in MCF)

12 Months Ended	Receipts	Deliveries	UFG	UFG (%)
November 2008	314,886	324,068	(9,183)	-2.83%
November 2009	300,635	312,715	(12,080)	-3.86%

Recommendation

Staff has no recommendations in this area.

Section VIII

Customer Billing

An important component in the GCR process is the proper application of GCR rates to customer bills. In order to determine that Piedmont properly applied its GCR and base rates during the audit period, Staff reviewed the Company's customer billing records. Using a random sampling, Staff selected customers from the Company's monthly billing registers and recalculated their bills. Staff then compared its recalculated bills to the customer billing register to determine if there were any differences.

Staff found that the Company accurately billed its customers per the GCR rates filed monthly with the Commission.

Recommendation

Staff has no recommendations for this area.

Section IX

Management and Operations Review

Interstate Pipeline Capacity

Currently, Piedmont does not have transportation, storage, or other service agreements or interconnects with any interstate pipelines. Traditionally, all of Piedmont's supply requirements are met exclusively by local, Ohio-produced gas. Additionally, Piedmont now has three interconnects with Dominion East Ohio Gas that provide additional sources of supply to Piedmont's system.

Market Area

During the previous audit in 2008, the Company served 1,668 sales customers and provided transportation service to 14 commercial/industrial customers. Currently, the Company is providing sales service to 1,721 customers (1,519 residential, 191 commercial, 11 industrial) and is providing transportation service to 13 commercial/industrial customers. This represents a 2.3% increase in the number of customers served.

Piedmont currently serves several small clusters or groups of customers primarily within Tuscarawas County, Ohio, but also serves small clusters of customers within parts of Harrison, Guernsey, Coshocton, and Holmes Counties. Most of Piedmont's service area is noncontiguous; that is, most of Piedmont's distribution system is not integrated. As a result, the Company is not able to utilize readily any individual producer or groups of producers to compete to supply the majority of its system, but, instead, it must rely upon individual local producers in the immediate vicinity of Piedmont's disparate customer clusters. However, these customers, in turn, serve the local producers in the area by providing a ready and willing market for those natural gas supplies, which might not otherwise be economically produced.

Piedmont continues to evaluate its existing system configuration and requirements. Piedmont appropriately expands its distribution system in areas of current or potential growth and development, while also striving to better interconnect its system. Piedmont continues making inroads with commercial and industrial developments, as well as with residential developments.

Supply Issues

Piedmont currently acquires its gas supplies from fourteen local producers and a small amount of gas from Dominion East Ohio. Piedmont has in place market-based pricing contracts with these suppliers. Piedmont has incorporated market-based terms and conditions more consistently for all of its supply agreements and has timed its supply agreements such that they do not expire nor permit cancellation during winter heating seasons.

Conclusion

Piedmont appears to have adequate supply planning and procurement capabilities and processes in place given a company of its size and available resources. It continues to develop its infrastructure so as to be better able to loop and interconnect more of its system over time.

Recommendations

Staff has no recommendations in this area. Piedmont is currently before the Commission for a base rate case and as a result, the Company will possibly have different rates and service offerings in the next audit.

The Public Utilities Commission of Ohio
Ted Strickland, Governor
Alan R. Schriber, Chairman

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