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

Suburban Natural Gas Company
12-216-GA-GCR

Financial Audit of the Gas Cost Recovery
Mechanisms for the Effective GCR Periods
March 1, 2010 through February 29, 2012

Ohio | Public Utilities Commission

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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 Suburban Natural Gas Company (Suburban or Company) Gas Cost Recovery (GCR) rates for March 1, 2010 through February 29, 2012. The Staff audited for conformity in all material respects with the procedural aspects of the uniform purchase gas adjustment as set forth in Chapter 4901:1-14 and related appendices, Administrative Code, and the Commission Entry in Case No. 12-216-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, Suburban Natural Gas Company 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, Administrative Code, 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.

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Section I

Executive Summary

Audit Work Program

The audit pertained to Suburban's SCOL and CORE systems. The audit investigation consisted of several components. Staff initially reviewed and evaluated relevant documents from within the Commission in preparation for the audit. Staff discussed audit material and documents with appropriate Company personnel at the Company's offices in Cygnet, Ohio. Additionally, 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.

Recommendations

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

- The differences between the Staff and Company calculations are not self-correcting through the GCR mechanism. Staff recommends an adjustment in the customers' favor of $101 as shown on Table I. This reconciliation adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

- Staff recommends the Company match the inclusion of its RA's to the corresponding AA's in its quarterly reporting periods.

- Staff recommends that the positive imbalance created by Chase from January to July 2010 be used to offset future purchases for sale customers as originally agreed to in the 2010 stipulation and ordered by the Commission.

- Staff recommends Suburban reduce its capacity entitlements as its contracts expire to a level commensurate with its forecasted PDD levels.

Section II

Introduction

Background

Suburban Natural Gas was founded in 1882 by Roland Hughes under the company name Consumer's Gas. Originally the Company distributed natural gas to the villages of Cygnet, Dunbridge, and Jerry City. A separate company, named Suburban Fuel Gas, was incorporated in 1929. In March of 1988, Consumer's Gas and Suburban Fuel Gas were merged to form Suburban Natural Gas.

The Suburban Natural Gas Company is headquartered in Cygnet, Ohio. The company maintains and operates two distinct distribution systems, the "CORE" and the "SCOL" systems with operations and customer service centers in Cygnet, Ohio and Lewis Center, Ohio, respectively.

The northern system, CORE, serves Cygnet and the surrounding areas, including the counties of Henry and Wood. This system is the older, traditional part of the Company's operations. It includes the distribution system formerly known as Consumers Gas, Inc., and has been in operation since the Company's inception in 1882. The CORE system operations are conducted out of the Cygnet office. As of the end of the audit period, approximately 3,975 customers were being served by the CORE system. This is down over 1,660 customers from the 2010 audit, as a result of the Commission's approval of Suburban application in Case No. 08-947-GA-ABN to abandon service to the villages of Hoytville, Deshler, Hamler, Malinta, and Holgate. Suburban served these villages through July 2011. These villages continue to receive natural gas service through other local distribution companies.

The southern system, SCOL, serves Delaware and Marion Counties, along with northern Columbus. This system is newer and has experienced rapid growth from 2000 to 2007. This system originated in 1988 through the development of a converted ARCO oil products pipeline, which was sold to ACO. ACO leased the pipeline to Suburban until 2006, at which time Suburban purchased the pipeline. With the ACO pipeline approaching its capacity limits due to the areas rapid growth, Suburban entered into a long term lease agreement with Del-Mar pipeline in 2005. This lease allowed the Company access to addition deliveries from Columbia Gas Transmission, LLC (TCO). The SCOL system operations are run out of the Lewis Center office.

By the end of the audit period, approximately 10,761 customers were being served by the SCOL system. In total, the combined CORE and SCOL systems serve approximately 14,736 customers.

Section III

Expected Gas Cost

Staff has reviewed Suburban'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

Suburban aggregates the SCOL and CORE system demand in determining its capacity and commodity requirements. During the audit period, Suburban utilized the asset management services of Atmos Energy Marketing. On February 1 2012, Suburban issued a request for proposal (RFP) for asset management service (AMS) to five marketers with responses due by February 22, 2012 and selection of the winning bidder by Suburban by the end of the month. Of the five marketers receiving the RFP, Suburban's received only one bid (Atmos). The other four marketers declined to bid. Suburban selected Atmos' bid of a four year term, Appalachian index pricing and a monthly credit for recognition of the capacity assignment.

Suburban also purchased gas supplies for its SCOL system through two interconnections with Columbia Gas of Ohio (COH) at COH's GCR rates plus a transportation fee. The two interconnects between Suburban and COH are Lazelle and Big Walnut. The supplies obtained by Suburban from COH were not procured or nominated by Atmos, rather were purchased at its points of interconnection with COH.

Purchase Volumes

In Case No. 10-216-GA-GCR, the Commission approved Staff's recommendation that Suburban place its monthly purchase volumes in its GCR filings. Suburban began filing monthly purchase volumes during this audit period.

Sales Volumes

Staff verified that Suburban's system sales volumes totaled 3,729,504 Mcf for the audit period, which is an increase of 77,146 Mcf from the 2010 audit. Staff noted no errors in the computation of sales volumes contained within the Company's GCR filings.

Conclusion

Staff has reviewed Suburban's RFP, bidders list, responses, and selection. Staff finds Suburban selection of Atmos to be the best AMS option available to the Company.

The filed purchase volumes matched those found by Staff in the course of its audit.

Recommendations

Staff has no recommendations.

Section IV

Actual Adjustment

The Actual Adjustment 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 month. The difference between each monthly unit cost and the monthly 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 for the three-month reporting quarter 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 reviewed the applicable purchase invoices, sales volumes, and Company-prepared worksheets and noted that for the months of December 2010, January and February 2011, the EGC when added/subtracted did not equal the Suburban's billed GCR. When this happens Staff starts with the GCR rate billed to customers and adds/subtracts the adjustments (AA and RA) to arrive at the EGC to be used its AA calculations. This method recognized the rate billed to customers less adjustments, equals the revenue collected by the Company through its EGC component. The difference in this case was very slight (.0001) but over a million plus MCFs the difference added up.

Conclusion

Staff found a slight difference in the EGC calculated in Suburban GCR filings for one quarter. Staff has accounted for this difference in its AA calculations.

Recommendations

The differences between the Staff and Company calculations are not self-correcting through the GCR mechanism. Staff recommends an adjustment in the customers' favor of $101 as shown on Table I. This reconciliation adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

Table I
Actual Adjustment

Quarter End		Sep-09	Oct-09	Nov-09	AA Nov-09	Difference Nov-09
Nov-09	**Per Staff**					
	Supply Cost $	$513,302	$875,397	$1,262,282		
	Jur. Sales MCF	34,611	52,245	143,054		
	Total Sales MCF	34,611	52,245	143,054		
	Book Cost $/ MCF	$14.8306	$16.7556	$8.8238		
	EGC$/MCF	$7.1274	$7.0084	$7.9166		
	Diff. $/MCF	$7.7032	$9.7472	$0.9072		
	Cost Diff. $	$266,615	$509,242	$129,779	$905,637	
	Per Company					
	Supply Cost $	$513,302	$875,397	$1,262,282		
	Jur. Sales MCF	34,611	52,245	143,054		
	Total Sales MCF	34,611	52,245	143,054		
	Book Cost $/ MCF	$14.8306	$16.7556	$8.8238		
	EGC$/MCF	$7.1274	$7.0084	$7.9166		
	Diff. $/MCF	$7.7032	$9.7472	$0.9072	$0	
	Cost Diff. $	$266,616	$509,244	$129,779	$905,639	$0

Quarter End		Dec-09	Jan-10	Feb-10	AA	Difference
Feb-10	**Per Staff**					
	Supply Cost $	$1,963,786	$2,403,321	$2,023,590		
	Jur. Sales MCF	187,478	382,662	300,316		
	Total Sales MCF	187,478	382,662	300,316		
	Book Cost $/ MCF	$10.4748	$6.2805	$6.7382		
	EGC$/MCF	$7.6692	$8.2665	$7.6260		
	Diff. $/MCF	$2.8056	($1.9860)	($0.8878)		
	Cost Diff. $	$525,988	($759,967)	($266,621)	($500,599)	
	Per Company					
	Supply Cost $	$1,963,786	$2,403,321	$2,023,590		
	Jur. Sales MCF	187,478	382,662	300,316		
	Total Sales MCF	187,478	382,662	300,316		
	Book Cost $/ MCF	$10.4748	$6.2805	$6.7382		
	EGC$/MCF	$7.6692	$8.2665	$7.6260		
	Diff. $/MCF	$2.8056	($1.9860)	($0.8878)	$0	
	Cost Diff. $	$525,987	($759,967)	($266,621)	($500,600)	$0

Table I
Actual Adjustment

Quarter End		Mar-10	Apr-10	May-10	AA	Difference
May-10	**Per Staff**					
	Supply Cost $	$1,395,523	$765,742	$599,558		
	Jur. Sales MCF	288,458	154,431	83,881		
	Total Sales MCF	288,458	154,431	83,881		
	Book Cost $/ MCF	$4.8379	$4.9585	$7.1477		
	EGC$/MCF	$7.8672	$6.3870	$6.8311		
	Diff. $/MCF	($3.0293)	($1.4285)	$0.3166		
	Cost Diff. $	($873,826)	($220,604)	$26,557	($1,067,873)	
	Per Company					
	Supply Cost $	$1,395,523	$765,742	$599,559		
	Jur. Sales MCF	288,458	154,431	83,881		
	Total Sales MCF	288,458	154,431	83,881		
	Book Cost $/ MCF	$4.8379	$4.9585	$7.1477		
	EGC$/MCF	$7.8672	$6.3870	$6.8311		
	Diff. $/MCF	($3.0293)	($1.4285)	$0.3166	$0	
	Cost Diff. $	($873,826)	($220,604)	$26,557	($1,067,874)	$0

Quarter End		Jun-10	Jul-10	Aug-10	AA	Difference
Aug-10	**Per Staff**					
	Supply Cost $	$485,298	$551,989	$536,370		
	Jur. Sales MCF	50,133	37,366	36,409		
	Total Sales MCF	50,133	37,366	36,409		
	Book Cost $/ MCF	$9.6801	$14.7724	$14.7319		
	EGC$/MCF	$6.9459	$7.5296	$7.5728		
	Diff. $/MCF	$2.7342	$7.2428	$7.1591		
	Cost Diff. $	$137,075	$270,636	$260,654	$668,365	
	Per Company					
	Supply Cost $	$485,298	$551,989	$536,370		
	Jur. Sales MCF	50,133	37,366	36,409		
	Total Sales MCF	50,133	37,366	36,409		
	Book Cost $/ MCF	$9.6801	$14.7724	$14.7319		
	EGC$/MCF	$6.9459	$7.5296	$7.5728		
	Diff. $/MCF	$2.7342	$7.2428	$7.1591	$0	
	Cost Diff. $	$137,075	$270,636	$260,654	$668,365	$0

Table I
Actual Adjustment

Quarter End		Sep-10	Oct-10	Nov-10	AA	Difference
Nov-10	**Per Staff**					
	Supply Cost $	$508,007	$663,914	$1,154,809		
	Jur. Sales MCF	37,620	56,355	104,383		
	Total Sales MCF	37,620	56,355	104,383		
	Book Cost $/ MCF	$13.5035	$11.7810	$11.0632		
	EGC$/MCF	$6.2547	$6.4560	$6.3606		
	Diff. $/MCF	$7.2488	$5.3250	$4.7026		
	Cost Diff. $	$272,702	$300,089	$490,873	$1,063,664	
	Per Company					
	Supply Cost $	$508,007	$663,914	$1,154,809		
	Jur. Sales MCF	37,620	56,354	104,383		
	Total Sales MCF	37,620	56,354	104,383		
	Book Cost $/ MCF	$13.5035	$11.7810	$11.0632		
	EGC$/MCF	$6.2547	$6.4560	$6.3606		
	Diff. $/MCF	$7.2488	$5.3250	$4.7026	$0	
	Cost Diff. $	$272,702	$300,089	$490,873	$1,063,664	$0

Quarter End		Dec-10	Jan-11	Feb-11	AA	Difference
Feb-11	**Per Staff**					
	Supply Cost $	$2,110,674	$2,234,825	$1,888,497		
	Jur. Sales MCF	231,763	387,164	392,738		
	Total Sales MCF	231,763	387,164	392,738		
	Book Cost $/ MCF	$9.1070	$5.7723	$4.8085		
	EGC$/MCF	$7.1114	$7.1219	$7.1748		
	Diff. $/MCF	$1.9956	($1.3496)	($2.3663)		
	Cost Diff. $	$462,506	($522,517)	($929,336)	($989,347)	
	Per Company					
	Supply Cost $	$2,110,674	$2,234,825	$1,888,497		
	Jur. Sales MCF	231,763	387,164	392,738		
	Total Sales MCF	231,763	387,164	392,738		
	Book Cost $/ MCF	$9.1070	$5.7723	$4.8085		
	EGC$/MCF	$7.1113	$7.1218	$7.1747		
	Diff. $/MCF	$1.9957	($1.3495)	($2.3662)	$0	
	Cost Diff. $	$462,529	($522,478)	($929,297)	($989,246)	($101)

Table I
Actual Adjustment

Quarter End		Mar-11	Apr-11	May-11	AA	Difference
May-11	**Per Staff**					
	Supply Cost $	$1,425,972	$1,022,917	$715,953		
	Jur. Sales MCF	273,668	227,987	120,159		
	Total Sales MCF	273,668	227,987	120,159		
	Book Cost $/ MCF	$5.2106	$4.4867	$5.9584		
	EGC$/MCF	$6.8632	$7.1715	$7.3203		
	Diff. $/MCF	($1.6526)	($2.6848)	($1.3619)		
	Cost Diff. $	($452,264)	($612,101)	($163,645)	($1,228,009)	
	Per Company					
	Supply Cost $	$1,425,972	$1,022,917	$715,953		
	Jur. Sales MCF	273,668	227,987	120,159		
	Total Sales MCF	273,668	227,987	120,159		
	Book Cost $/ MCF	$5.2106	$4.4867	$5.9584		
	EGC$/MCF	$6.8632	$7.1715	$7.3203		
	Diff. $/MCF	($1.6526)	($2.6848)	($1.3619)	$0	
	Cost Diff. $	($452,264)	($612,101)	($163,645)	($1,228,009)	$0

Quarter End		Jun-11	Jul-11	Aug-11	AA	Difference
Aug-11	**Per Staff**					
	Supply Cost $	$653,657	$527,458	$590,844		
	Jur. Sales MCF	66,956	49,047	30,619		
	Total Sales MCF	66,956	49,047	30,619		
	Book Cost $/ MCF	$9.7625	$10.7541	$19.2968		
	EGC$/MCF	$6.9506	$6.9819	$6.9924		
	Diff. $/MCF	$2.8119	$3.7722	$12.3044		
	Cost Diff. $	$188,272	$185,015	$376,746	$750,034	
	Per Company					
	Supply Cost $	$653,657	$527,458	$590,844		
	Jur. Sales MCF	66,956	49,047	30,619		
	Total Sales MCF	66,956	49,047	30,619		
	Book Cost $/ MCF	$9.7625	$10.7541	$19.2968		
	EGC$/MCF	$6.9506	$6.9819	$6.9924		
	Diff. $/MCF	$2.8119	$3.7722	$12.3044	$0	
	Cost Diff. $	$188,272	$185,015	$376,746	$750,034	$0
				Total:		**($101)**

Section V

Refund and Reconciliation Adjustment

The Refund and Reconciliation Adjustment (RA) is used to pass through the jurisdictional portion of refunds received from gas suppliers and adjustments ordered by the Commission. Annual interest of ten percent (10 %) is applied to the net jurisdictional amount of the RA, which is then divided by twelve months of historic sales volumes to develop a volumetric rate to be included in the GCR calculation for four quarters.

The Staff has reviewed the RA calculations contained in each GCR filing within the audit periods. Staff finds that the Company did complete the reconciliation adjustment of $12,878 ordered by the Commission in Case No. 10-216-GA-GCR. Staff finds that the Company's inclusion of the reconciliation adjustment contained the appropriate amount of interest and was included in rates for four consecutive quarters.

Recommendations

Staff has no recommendations in this area.

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 difference 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 placed into the AA calculation.

Errors detected in the Balance Adjustment generally are 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.

Staff has calculated the Company's BA and found that the proper rates and sales volumes were used throughout the audit period. However, Staff found that in the second quarterly reporting period the Company omitted the Commission ordered reconciliation (RA) from Case No. 08-216-GA-GCR. Suburban included this RA in the seventh quarterly reporting period as shown in Table II.

Conclusions

The inclusions of RA's in Suburban's BA calculations were out of sequence during this audit period. The net effect on the audit period BA was zero, but if this RA would have been recognizing in a subsequent filing, Staff would have recommended an adjustment for the audit periods.

Recommendations

Staff recommends the Company match the inclusion of its RA's to the corresponding AA's in its quarterly reporting periods.

Table II
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Nov-09	Adjustment $	$418,252	$0	$0		
	Rate $/MCF	$0.2405	$0.0000	$0.0000		
	Sales MCF	1,861,803	1,861,803	1,861,803		
	Recovery $	$447,764	$0	$0		
	Balance $	($29,512)	$0	$0	($29,512)	
	Per Company					
	Adjustment $	$418,252	$0	$0		
	Rate $/MCF	$0.2405	$0.0000	$0.0000		
	Sales MCF	1,861,804	1,650,610	0		
	Recovery $	$447,764	$0	$0		
	Balance $	($29,512)	$0	$0	($29,512)	($0)

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Feb-10	Adjustment $	$1,176,267	($153,860)	$0		
	Rate $/MCF	$0.6700	($0.0876)	$0.0000		
	Sales MCF	1,763,021	1,763,021	1,763,021		
	Recovery $	$1,181,224	($154,441)	$0		
	Balance $	($4,957)	$581	$0	($4,377)	
	Per Company					
	Adjustment $	$1,176,267	$0	$0		
	Rate $/MCF	$0.6700	$0.0000	$0.0000		
	Sales MCF	1,763,021	1,763,021	0		
	Recovery $	$1,181,224	$0	$0		
	Balance $	($4,957)	$0	$0	($4,957)	$581

Table II
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: May-10	Adjustment $	($2,459,529)	$0	$0		
	Rate $/MCF	($1.3018)	$0.0000	$0.0000		
	Sales MCF	1,759,363	1,759,363	1,759,363		
	Recovery $	($2,290,339)	$0	$0		
	Balance $	($169,190)	$0	$0	($169,190)	
	Per Company					
	Adjustment $	($2,459,529)	$0	$0		
	Rate $/MCF	($1.3018)	$0.0000	$0.0000		
	Sales MCF	1,759,363	0	0		
	Recovery $	($2,290,339)	$0	$0		
	Balance $	($169,190)	$0	$0	($169,190)	$0

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Aug-10	Adjustment $	($1,251,903)	$0	$0		
	Rate $/MCF	($0.6866)	$0.0000	$0.0000		
	Sales MCF	1,751,044	1,751,044	1,751,044		
	Recovery $	($1,202,267)	$0	$0		
	Balance $	($49,637)	$0	$0	($49,637)	
	Per Company					
	Adjustment $	($1,251,903)	$0	$0		
	Rate $/MCF	($0.6866)	$0.0000	$0.0000		
	Sales MCF	1,751,044	0	0		
	Recovery $	($1,202,267)	$0	$0		
	Balance $	($49,636)	$0	$0	($49,636)	($0)

Table II
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	$673,835	$0	$0		
End:	Rate $/MCF	$0.3693	$0.0000	$0.0000		
Nov-10	Sales MCF	1,719,492	1,719,492	1,719,492		
	Recovery $	$635,008	$0	$0		
	Balance $	$38,827	$0	$0	$38,827	
	Per Company					
	Adjustment $	$673,835	$0	$0		
	Rate $/MCF	$0.3693	$0.0000	$0.0000		
	Sales MCF	1,719,492	0	0		
	Recovery $	$635,008	$0	$0		
	Balance $	$38,827	$0	$0	$38,827	$0

	Per Staff	AA	RA	BA	Total BA	Difference
Year	Adjustment $	$876,128	$0	$0		
End:	Rate $/MCF	$0.4706	$0.0000	$0.0000		
Feb-11	Sales MCF	1,860,702	1,860,702	1,860,702		
	Recovery $	$875,646	$0	$0		
	Balance $	$482	$0	$0	$482	
	Per Company					
	Adjustment $	$876,129	$0	$0		
	Rate $/MCF	$0.4706	$0.0000	$0.0000		
	Sales MCF	1,860,702	0	0		
	Recovery $	$875,646	$0	$0		
	Balance $	$481	$0	$0	$481	$0

Table II
Balance Adjustment

		AA	RA	BA	Total BA	Difference
	Per Staff					
Year	**Adjustment $**	($505,557)	$0	$0		
End:	**Rate $/MCF**	($0.2868)	$0.0000	$0.0000		
May-11	**Sales MCF**	1,955,747	1,955,747	1,955,747		
	Recovery $	($560,908)	$0	$0		
	Balance $	$55,351	$0	$0	$55,351	
	Per Company					
	Adjustment $	($505,557)	($153,860)	$0		
	Rate $/MCF	($0.2868)	($0.0876)	$0.0000		
	Sales MCF	1,955,747	1,763,021	0		
	Recovery $	($560,908)	($154,447)	$0		
	Balance $	$55,351	$580	$0	$55,932	($580)

		AA	RA	BA	Total BA	Difference
	Per Staff					
Year	**Adjustment $**	($1,237,064)	$0	$0		
End:	**Rate $/MCF**	($0.7031)	$0.0000	$0.0000		
Aug-11	**Sales MCF**	1,978,460	1,978,460	1,978,460		
	Recovery $	($1,391,055)	$0	$0		
	Balance $	$153,991	$0	$0	$153,991	
	Per Company					
	Adjustment $	($1,237,064)	$0	$0		
	Rate $/MCF	($0.7031)	$0.0000	$0.0000		
	Sales MCF	1,978,460	1,964,965	0		
	Recovery $	($1,391,055)	$0	$0		
	Balance $	$153,991	$0	$0	$153,991	($0)
					TOTAL:	**$0**

Section VII

Unaccounted-For Gas

Unaccounted-For Gas (UFG) is the difference between gas purchases and gas sales. 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), 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.

Staff examined Suburban's UFG for the twelve-month periods ending August 2010 and August 2011. Staff used total receipts (Atmos and COH invoiced amounts and transportation customers nominations) volumes less total deliveries (GCR sales and transportation volumes) with the difference then divided by the total receipts to arrive at the systems' average unaccounted-for gas rate. The results of Staff's calculation are shown in Table I below.

The GCR Rule allows for up to 5% UFG.

Table III
System Average UFG Rates
Values in MCF

12 Months Ended	Receipts	Deliveries	UFG	UFG %
August 2010	1,725,706	1,751,044	(25,338)	(1.46)%
August 2011	1,956,727	1,978,460	(21,733)	(1.11)%

Recommendation

Staff has no recommendations for this area.

Section VIII
Customer Billing

An important component in the GCR process is the proper application of GCR rates to customer bills. Staff has reviewed and verified that the GCR rates, rate base, customer charge, uncollectible and PIPP riders were properly applied to customer bills during the audit period. Although not every bill was examined, ten customer bills were randomly picked and verified in each monthly billing period in order to ensure billing accuracy.

Recommendation

Staff has no recommendations for this area.

Section IX

Management & Operations

Market Area

As mentioned in the Introduction Section, Suburban filed for abandonment of five villages in in Case 08-947-GA-ABN on August 1, 2008. In its application Suburban requested the authority to abandon service to Holgate, Deshler, Malinta, Hoytville, and Hamler due to the expiration of lease agreements to serve these villages and the inability to renegotiate new leases with some of them. On June 17, 2011, Suburban, KNG Energy and Ohio Gas Company signed a stipulation resolving all of the issues contained in Suburban application and transferred the service responsibility of these villages. On June 29, 2011, the Commission signed the Finding and Order adopting the June 17th stipulation. As a result of the approval Suburban's application the CORE system customer based decreased by over 1,660 customers from the prior audit to 3,975 as of December 2011.

Suburban's newer system, the SCOL system, primarily serves Marion and Delaware counties. The SCOL system was developed to serve new load primarily off of the old ARCO products pipeline. The former ARCO products pipeline was converted to a natural gas pipeline by Suburban, and placed into operation in December 1988. The SCOL system is made up of approximately 10,761 customers as of December 2011. During this audit period, Suburban's customer growth was limited to the SCOL system, which experienced approximately 490 more customers served than in the prior audit. For the combined Suburban system (both CORE and SCOL systems), the Company provides service to approximately 14,736 customers.

As a result of the Company's customer growth, especially in the Delaware, Lewis Center, and Polaris Center areas, Staff has recommended that Suburban closely monitor its customer and load growth. Even with the changing market dynamics and overall economic conditions in Suburban's service area and the overall slowing in the previously fast-growing new home construction in the Delaware, Lewis Center, and Polaris Center areas, Suburban should continue to monitor its changing daily and seasonal requirements.

Section X

DEL-MAR Pipeline

In Case No. 08-216-GA-GCR, Staff reviewed the DEL-MAR Pipeline lease agreement. Suburban recovered costs associated with this lease agreement through its GCR. In the prior audit, Staff examined the construction costs and lease costs for the years 2006 and 2007. In this audit, Staff verified Suburban's inclusion of lease payments from September 2009 through August 2011. Staff found that Suburban included $1,362,258 of DEL-MAR lease payments for September 2009 through August 2010 and $1,408,493 for the period September 2010 through August 2011. Staff notes that the 2009 lease payments decreased slightly due to an over-collection of property taxes in the 2008 lease payments. As a result of changes to Ohio property taxes in 2009, DEL-MAR experienced a significant increase in its property taxes over 2008, which resulted in an under-collection of property taxes in 2009 lease payments. DEL-MAR lease payments in 2010 recovered the under-collection of property taxes from 2009. Each subsequent years lease payment trues-up for the prior year's over- or-under collection of costs. For 2011, DEL-MAR lease payments increased to $1,415,316, an increase of $20,472 for the 2010 lease payments.

Transportation on Suburban's System

Suburban serves two customers under transportation arrangements. One of the transportation customers Chase/Bank One (Chase) contracted for firm service. Starting in October 2008, Suburban began to bill Chase for some pipeline demand charges under the demand charge provision of tariffs. These demand charges that were billed to the transporter were credited to Suburban's GCR.

In the 2010 audit, Staff verified that these pipeline demand charge were credited to Suburban's GCR and recommended that an additional $59,783 be credited to the GCR to recognize Chase's share of DEL-MAR demand charges. Suburban countered that Staff recommendation would result in the Company loss of its largest transportation customer to a competing local distribution company.

Following the docketing of the audit report, Suburban and Staff met in settlement discussions to resolve the Staff recommendations. On September 24, 2010, Staff and Company agreed in a stipulation to the following transportation related provisions:

- No later than November 1, 2010, Suburban will begin performing daily reads and monthly reconciliation for its largest transportation customer, Chase/Bank One.

- Suburban shall, within thirty (30) days of an order approving this Stipulation, submit a filing in a separate docket to modify and update its transportation tariff. Said filing will propose that Suburban replace its current transportation demand charge with a charge of $0.25 per Mcf per month.
- The physical deliveries of over nomination of Chase/Bank One from January 1, 2010 through July 31, 2010 shall be used to offset physical deliveries associated with under nomination for the audit period, including any prior years' deficiencies for the benefit of GCR customers.
- GCR customers will be credited $12,878 for the audit period March 1, 2008 through February 2010.

On November 22, 2010, the Commission adopted the stipulation in its Opinion and Order. As part of it 2012 audit, Staff verified that the Commission recommendations were implemented. Below are Staff's findings to the above recommendations.

- Staff found that Suburban began daily meter reads of Chase/Bank One November 2011.

- Staff found that Suburban filed it application to amend its transportation tariffs on January 6, 2011, which was slightly more than the 30 days after the Commission approval. The Company filing was delayed to the holidays and attorneys availability during this time. Staff also found Suburban's tariffs contained the $0.25 per Mcf demand charge. Staff notes that the Company initiated the billing of the $.25 per Mcf demand charge for volumes transported April 2011. These demand charges were credited to Suburban's GCR starting June 2011.

- The physical deliveries of over nomination of Chase/Bank One from January 1, 2011 through July 31, 2011, were not used as an offset to physical deliveries associated with under nomination for the 2010 audit period. Instead, Chase/Bank One delivered zero volumes for August and September 2010 effectively eliminating the January to July 2010 over nominations.

- As noted in the Refund and Reconciliation Adjustment, Suburban included in its RA the $12,878 Commission ordered adjustment.

Conclusions

Staff reviewed the DEL-MAR lease payments and the underlying annual calculations of those payments in this audit. The lease payments were calculated using the same format as used in the 2008 and 2010 audits.

In the review of the prior audit recommendations, Staff finds that two of the four recommendations were not implemented.

The first recommendation that was not implemented was the reading of Chase's meters on a daily basis. The daily readings would have enabled the Company to compare Chase's delivered volumes with those consumed at its facilities. With this information Suburban could have informed Chase of potential over- or under - deliveries thus allowing it to reduce its imbalances through increasing or decreasing deliveries. These imbalances were eliminated at the end of the audit period through Suburban cashing outs of Chase's imbalances.

The second recommendation that was not implemented was the January 2010 to July 2010 over nominations. The over nominations (positive imbalance) were to offset the under nomination (negative imbalance) created by Chase/Bank One in the prior audit period. For 2008 and 2009 Chase predominately operated with negative imbalances where it consumed more gas than was delivered on its behalf. The result was Chase consumed gas for which it paid nothing. The prices of gas in 2008 ranged from $6.97 to $13.66 per unit, with prices declining steadily through 2009 to a low of $2.97. This disparity in gas prices resulted in Suburban's sales customers paying for more gas than they consumed when the price was higher and subsequently being repaid by Chase with lower priced gas in 2009 and 2010. Staff stressed this point in settlement discussions with the Company. Therefore the recommendation that Chase's 2010 positive imbalance would be utilized to the benefit of sales customers (GCR) was made to offset some of the cost impact borne by sales customers in 2008 and 2009.

Recommendations

Staff recommends that the positive imbalance created by Chase from January 2010 through July 2010 be used to offset future purchases for sale customers as originally agreed to in the 2010 stipulation and ordered by the Commission.

Section XI

System Growth

As discussed previously, Suburban has experienced a decline in the number of customers as a result of its 2008 application to abandon customers. The decline in the number of customers has result in a decline in its system's requirements.

Annual Growth

At the start of the audit period, the SCOL and CORE systems current had approximately 10,268 and 5,644 customers respectively. As of the December 2011, the SCOL system has approximately 10,761 customers and the Core System as 3,975 a decrease 1,176 customers, or seven percent.

2012 Long Term Forecast Report

Base upon Suburban's Long Term Forecast Report (LTFR) filed in Case No. 12-1700-GA-FOR, the Company anticipated adding 350 to 370 customers per year for the next decade. At its currently anticipated growth rate, it will take less than four years for Suburban's customer count to return to its current level of nearly 16,000 customers.

In reviewing Suburban's LTFR, the Company projects that its 2012 peak day design (PDD), using negative 19 Fahrenheit as it design day temperature, will result in system demand of approximately 24,000 Mcf for a customer base of 14,692 sales customers. Suburban forecasts that its PDD for 2013 will increase slightly to 24,200 and gradually increase over the next 10 years.

Purchase Gas Agreement and Firm Capacity Entitlements

Traditionally, long term forecasts were assembled by gas utilities to determine the appropriate level of supply and capacity to have under contract to meet peak day conditions. Starting in 2004, Suburban has added substantial amounts of firm interstate pipeline transportation and storage capacity and which has continued through this audit period with the addition of North Coast capacity. These additions in pipeline capacity entitlements were driven by the rapid growth in the SCOL customer base prior to 2008 and the difficulty in acquiring pipeline capacity. As noted above, Suburban's forecast reveal that even at PDD its system required are 24,000 Mcf to 26,000 Mcf for the next ten years. The Company has substantially more pipeline capacity under contract than is required to meet its peak day design requirements, as noted in the table IV below:

Table IV

Years	# of Customers	Purchase Gas (COH) and Capacity Entitlements Mcf	Peak Days Actual Mcf	Company's Design Peak Day in Mcf
2000	8,200			
2002	10,175			
2004	12,282	22,219	16,197	
2006	14,245	29,274	14,923	
2007	15,132	29,274	18,833	
2008	15,617	32,377	17,507	
2009	15,851	32,377	22,601	26,000
2010	16,340	33,847	20,113	26,000
2011	14,736	35,318	16,600	24,000

The above table shows that Suburban has PDD of approximately 24,000 for 2011 and purchase gas and capacity entitlement under contract to meet a PDD of 34,625 Mcf for the winter of 2011 – 2012. Based upon the availability of supply from COH and the 2011-12 level firm capacity entitlements, Suburban will have unutilized capacity for decades.

As Suburban increased its capacity entitlements, it also increased its annual demand charges. As shown below in Table V the annual demand charges for the years 2004 through 2011 have steadily increased, as have the cost on a per unit basis (Mcf) that Suburban's GCR customers have had to pay.

Table V

Years	Capacity Entitlements (Mcf)	Annual Cost of Capacity	Per Unit Price for Capacity
2004	22,219	$1,485,202	$1.068
2006	29,274	$3,565,836	$2.331
2007	29,274	$3,520,474	$2.098
2008	32,377	$3,634,769	$2.059
2009	32,377	$4,030,378	$2.010
2010	33,847	$4,330,654	$2.837
2011	35,318	$4,912,415	$3.282

Conclusions

Staff finds that Suburban has substantial amounts of unutilized capacity under contract which results in an average cost per customer of over three dollars per Mcf for demand charges alone.

Suburban is aware of Staff's findings. Suburban has informed Staff that at if first opportunity to reduce its capacity entitlements, the Company along with Atmos Energy, will notify the pipelines of its intentions to do so. As the first capacity contract does not expire until March 2014, Suburban will have ample time to notify the appropriate pipeline(s) of its decision(s) to reduce its contractual capacity entitlements.

Recommendations

Staff recommends Suburban reduce its capacity entitlements as its contracts expire to a level commensurate with its forecasted PDD levels.