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

Glenwood Energy of Oxford, Inc.

13-210-GA-GCR

Financial Audit of the Gas Cost Recovery Mechanisms for the Effective GCR Periods July 1, 2011 through June 30, 2013

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 Glenwood Energy of Oxford, Inc. (Glenwood or Company) gas cost recovery (GCR) rates for July 1, 2011 through June 30, 2013. 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 30, 2013 in Case No. 13-210-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, Glenwood 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.

Wm. Ross Willis
Chief, Rates Division
Public Utilities Commission of Ohio

Section I

Executive Summary

Audit Work Program

Staff conducted investigative interviews with appropriate company personnel at the company's offices in Oxford, Ohio and reviewed the appropriate invoices and documentation necessary to calculate the Company's GCR rates.

Recommendations

Unless otherwise stated in this report, Staff's review has shown that Oxford accurately calculated its GCR rates for the monthly periods that are discussed in this report. Following is a summary of the Staff's recommendations contained in Chapters II through IX of this report.

- The differences between the Staff and Company calculations in the AA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment of $11,272 in the company's favor.

- The differences between the Staff and Company calculations in the BA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment of $37,921 in the customers' favor.

Section II

Company Profile

Background

Glenwood purchased at a public auction certain assets of a company known as Oxford Natural Gas Company (Oxford) on August 8, 2007. On September 18, 2007, in case No. 07-1025-GA-ATR, Glenwood filed for Commission approval of the purchase of Oxford's assets with the Commission granting approval on October 10, 2007. Glenwood is wholly-owned by the Keith G. Smith Trust

Operations

Glenwood currently serves portions of the city of Oxford and portions of Butler County appurtenant to the city. The Company's headquarters are maintained in the city of Oxford, Butler County, Ohio. Glenwood currently provides natural gas utility service to approximately 4,389 customers. Glenwood provides its service under an ordinance it signed with the city of Oxford that is effective from June 1, 2011 to May 31, 2014.

Recommendations

Staff has no recommendations for this area.

Section III

Expected Gas Cost

Staff has reviewed Glenwood's calculations of their EGC for the audit period. The EGC mechanism attempts to match future gas revenues for the upcoming month 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 month. 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

In August 2007, Glenwood signed a Base Contract for the Sales and Purchase of Natural Gas (base contract) with Atmos Energy Marketing (Atmos). Under the terms of the base contract, Atmos procured gas on behalf of Glenwood and nominated delivery of the gas on Texas Eastern Transmission (Texas Eastern) to a point of interconnect with Columbia Gas Transmission (TCO). TCO delivered the gas into Duke Energy Ohio (Duke) who delivered the volumes to Glenwood's city gate. With the Atmos base contract Glenwood assigned its pipeline capacity entitlements to Atmos to manage and effectuate the delivery of gas to Duke. The initial term of the contract was for three years. In September 2009, Glenwood amended its contract with Atmos, which resulted in reduced fees and extended the term.

Purchase Volumes

Purchase volumes for the audit period were calculated by taking Duke's monthly meter reads, grossed up for shrink and converted from MCF to Dth. The Company then subtracted out the nominated volumes for transportation customers on Glenwood's system. Glenwood relies upon information obtained from Atmos to do this calculation.

Sales Volumes

Staff has reviewed Glenwood's billing register summaries and their customer billing journals from January 2011 through March 2013 for sales volumes verification. Staff also reviewed Glenwood's billing adjustments from their two gas light customers, Oxford Green and Forest Ridge, during the same period. Staff noted errors in sales volumes during the audit period, associated with the one transport customer who was later moved to sales service.

Transportation Services

At the start of the audit period Glenwood provided transportation service to three customers through special contracts and tariffs. Under the terms of the agreements, Glenwood delivered the transporters nominated volumes from its city gate to the customers' facilities. Any differences between what was nominated and what was delivered were recognized as an imbalance, which Glenwood cashed out on a monthly basis. The transportation customers paid fixed and volumetric charges, with a portion of these fees being credited to Glenwood's GCR to recognize the transporters use of Glenwood's agreement with Duke.

During the last audit period, one of the transportation customers' suppliers sold their book of business leaving this customer without gas. Shortly thereafter, Glenwood determined that the transportation customer was not receiving any nomination and assessed them a monthly fuel charges. This essentially turned this transportation customer into a GCR customer.

Glenwood accepted Staff's recommendation from the previous audit and that customer was transferred from transportation to sales.

Subsequent to the audit period, two transportation customers' negative imbalances were cashed-out using Glenwood's average monthly commodity rate paid to Atmos. The Company stated that the proceeds from these cash-outs would be credited to its GCR.

Staff verified during this audit the cash-outs were properly credited to the Company's GCR.

Conclusions

Glenwood's sale volumes had errors in calculations associated with the transportation customer. Once the transportation customer was moved to sales service, the errors in sales volumes were eliminated.

During the last audit, a transportation customer was without a supplier, and Glenwood assessed a monthly fuel charge. The fuel charge was calculated using some portions of the Atmos invoice. The monthly fuel charges should have recognized the gas that was being consumed by the transportation customer as the same gas being consumed by Glenwood's GCR customers. Glenwood converted the transportation customer to sales service.

Transportation imbalance cash-outs billed subsequent to the audit period, appear to accurately reflect the volumes and costs attributable to these two transporters.

Recommendations

Staff recommends the Company continue to double check its sales volumes to ensure that the proper figures are incorporated into its GCR filings.

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 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 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, sales volumes, and Company-prepared worksheets. Staff found that the credits calculated for two transportation customers were different than Staff's calculation for a few months of the audit period. Sales volumes errors and purchase gas cost errors were also noted by Staff.

As noted in Section III, Staff believes that the fuel charges billed to the transportation customers should have been the GCR rate. To account for this in its calculation, Staff has added the transportation customers' monthly meter volumes to the monthly sales volumes in its AA calculation for the months of January 2011 through March 2011.

The difference between Staff calculated AA and Company's filed AA for the audit period is $11,272. Staff's and Company AA calculations are shown on Table I.

Recommendations

The differences between the Staff and Company calculations in the AA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment of $11,272 in the company's favor.

Table I
Actual Adjustment

	Per Staff	Jan-11	Feb-11	Mar-11	AA	Difference
Quarter End:	Supply Cost $	$605,391	$462,509	$314,524		
	Jur. Sales MCF	79,664	70,036	56,407		
Mar-11	Total Sales MCF	79,664	70,036	56,407		
	Book Cost $/ MCF	$7.5993	$6.6039	$5.5760		
	EGC$/MCF	$7.8469	$7.8215	$7.7552		
	Diff. $/MCF	($0.2476)	($1.2176)	($2.1792)		
	Cost Diff. $	($19,725)	($85,276)	($122,923)	($227,924)	
	Per Company					
	Supply Cost $	$604,825	$461,826	$308,668		
	Jur. Sales MCF	81,935	69,024	55,282		
	Total Sales MCF	81,935	69,024	55,282		
	Book Cost $/ MCF	$7.3818	$0.6691	$5.5835		
	EGC$/MCF	$7.8469	$7.8215	$7.7552		
	Diff. $/MCF	($0.4651)	($1.1307)	($2.1717)		
	Cost Diff. $	($38,111)	($78,045)	($120,055)	($236,211)	$8,287

	Per Staff	Apr-11	May-11	Jun-11	AA	Difference
Quarter End:	Supply Cost $	$164,467	$127,337	$88,680		
	Jur. Sales MCF	28,470	16,722	8,439		
Jun-11	Total Sales MCF	28,470	16,722	8,439		
	Book Cost $/ MCF	$5.7769	$7.6148	$10.5081		
	EGC$/MCF	$7.0374	$7.0683	$7.0661		
	Diff. $/MCF	($1.2605)	$0.5465	$3.4420		
	Cost Diff. $	($35,886)	$9,139	$29,048	$2,300	
	Per Company					
	Supply Cost $	$152,826	$138,812	$88,680		
	Jur. Sales MCF	28,137	16,611	9,968		
	Total Sales MCF	28,137	16,611	9,968		
	Book Cost $/ MCF	$5.4315	$8.3566	$8.8965		
	EGC$/MCF	$7.0373	$7.0682	$7.0660		
	Diff. $/MCF	($1.6058)	$1.2884	$1.8305		
	Cost Diff. $	($45,183)	$21,402	$18,246	($5,535)	$7,835

Table I
Actual Adjustment

	Per Staff	Jul-11	Aug-11	Sep-11	AA	Difference
Quarter End: Sep-11	Supply Cost $	$72,732	$80,913	$87,837		
	Jur. Sales MCF	6,290	8,608	9,842		
	Total Sales MCF	6,290	8,608	9,842		
	Book Cost $/ MCF	$11.5627	$9.3995	$8.9245		
	EGC$/MCF	$7.1172	$7.1008	$7.1008		
	Diff. $/MCF	$4.4455	$2.2987	$1.8237		
	Cost Diff. $	$27,963	$19,788	$17,949	$65,700	
	Per Company					
	Supply Cost $	$73,478	$81,704	$86,304		
	Jur. Sales MCF	6,379	8,610	9,875		
	Total Sales MCF	6,379	8,610	9,875		
	Book Cost $/ MCF	$11.5187	$9.4894	$8.7396		
	EGC$/MCF	$7.1172	$7.1008	$6.9343		
	Diff. $/MCF	$4.4015	$2.3886	$1.8053		
	Cost Diff. $	$28,077	$20,566	$17,828	$66,471	($771)

	Per Staff	Oct-11	Nov-11	Dec-11	AA	Difference
Quarter End: Dec-11	Supply Cost $	$157,566	$235,807	$337,307		
	Jur. Sales MCF	21,178	37,665	54,684		
	Total Sales MCF	21,178	37,665	54,684		
	Book Cost $/ MCF	$7.4400	$6.2607	$6.1682		
	EGC$/MCF	$7.2493	$7.4749	$7.8250		
	Diff. $/MCF	$0.1907	($1.2142)	($1.6568)		
	Cost Diff. $	$4,039	($45,732)	($90,601)	($132,295)	
	Per Company					
	Supply Cost $	$157,596	$236,071	$337,698		
	Jur. Sales MCF	19,736	38,994	54,685		
	Total Sales MCF	19,736	38,994	54,685		
	Book Cost $/ MCF	$7.9852	$6.0540	$6.1753		
	EGC$/MCF	$7.2493	$7.4749	$7.8249		
	Diff. $/MCF	$0.7359	($1.4209)	($1.6496)		
	Cost Diff. $	$14,524	($55,405)	($90,207)	($131,088)	($1,207)

Table I
Actual Adjustment

	Per Staff	Jan-12	Feb-12	Mar-12	AA	Difference
Quarter	Supply Cost $	$390,587	$374,312	$221,915		
End:	Jur. Sales MCF	78,246	62,958	29,694		
Mar-12	Total Sales MCF	78,246	62,958	29,694		
	Book Cost $/ MCF	$4.9918	$5.9454	$7.4733		
	EGC$/MCF	$7.4697	$7.3843	$6.9135		
	Diff. $/MCF	($2.4779)	($1.4389)	$0.5598		
	Cost Diff. $	($193,886)	($90,590)	$16,623	($267,854)	
	Per Company					
	Supply Cost $	$390,587	$374,312	$221,918		
	Jur. Sales MCF	78,129	62,974	29,674		
	Total Sales MCF	78,129	62,974	29,674		
	Book Cost $/ MCF	$4.9993	$5.9439	$7.4785		
	EGC$/MCF	$7.4697	$7.3843	$6.9135		
	Diff. $/MCF	($2.4704)	($1.4404)	$0.5650		
	Cost Diff. $	($193,013)	($90,707)	$16,767	($266,953)	($901)

	Per Staff	Apr-12	May-12	Jun-12	AA	Difference
Quarter	Supply Cost $	$127,464	$79,830	$69,995		
End:	Jur. Sales MCF	21,962	11,724	10,040		
Jun-12	Total Sales MCF	21,962	11,724	10,040		
	Book Cost $/ MCF	$5.8039	$6.8089	$6.9716		
	EGC$/MCF	$5.2952	$5.2186	$5.2602		
	Diff. $/MCF	$0.5087	$1.5903	$1.7114		
	Cost Diff. $	$11,172	$18,645	$17,182	$47,000	
	Per Company					
	Supply Cost $	$126,771	$79,829	$69,995		
	Jur. Sales MCF	21,911	11,720	10,014		
	Total Sales MCF	21,911	11,720	10,014		
	Book Cost $/ MCF	$5.7857	$6.8114	$6.9897		
	EGC$/MCF	$5.2952	$5.2186	$5.2602		
	Diff. $/MCF	$0.4905	$1.5928	$1.7295		
	Cost Diff. $	$10,748	$18,667	$17,319	$46,734	$266

Table I
Actual Adjustment

	Per Staff	Jul-12	Aug-12	Sep-12	AA	Difference
Quarter End:	Supply Cost $	$74,082	$72,835	$87,423		
	Jur. Sales MCF	5,313	7,868	9,386		
Sep-12	*Total Sales MCF*	*5,313*	*7,868*	*9,386*		
	Book Cost $/ MCF	$13.9424	$9.2566	$9.3145		
	EGC$/MCF	$5.7324	$5.8101	$5.7390		
	Diff. $/MCF	$8.2100	$3.4465	$3.5755		
	Cost Diff. $	$43,623	$27,119	$33,558	$104,300	
	Per Company					
	Supply Cost $	$74,082	$72,835	$87,737		
	Jur. Sales MCF	5,285	7,842	9,321		
	Total Sales MCF	5,285	7,842	9,321		
	Book Cost $/ MCF	$14.0175	$9.2878	$9.4129		
	EGC$/MCF	$5.7324	$5.8101	$5.7389		
	Diff. $/MCF	$8.2851	$3.4777	$3.6740		
	Cost Diff. $	$43,787	$27,272	$34,245	$105,304	($1,004)

	Per Staff	Oct-12	Nov-12	Dec-12	AA	Difference
Quarter End:	Supply Cost $	$139,633	$270,461	$288,678		
	Jur. Sales MCF	20,501	47,817	53,840		
Dec-12	Total Sales MCF	20,501	47,817	53,840		
	Book Cost $/ MCF	$6.8109	$5.6562	$5.3617		
	EGC$/MCF	$6.2274	$6.3643	$6.3314		
	Diff. $/MCF	$0.5835	($0.7081)	($0.9697)		
	Cost Diff. $	$11,963	($33,859)	($52,209)	($74,105)	
	Per Company					
	Supply Cost $	$139,633	$270,846	$288,678		
	Jur. Sales MCF	20,481	47,704	53,840		
	Total Sales MCF	20,481	47,704	53,840		
	Book Cost $/ MCF	$6.8177	$5.6776	$5.3618		
	EGC$/MCF	$6.2274	$6.3643	$6.3314		
	Diff. $/MCF	$0.5903	($0.6867)	($0.9696)		
	Cost Diff. $	$12,089	($32,756)	($52,204)	($72,871)	($1,234)

TOTAL: $11,272

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 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.

Upon the conclusion of the prior audit in Case No. 11-210-GA-GCR, the Commission ordered a reconciliation adjustment of $37,634 in the customer's favor. Staff has reviewed the Company's filings and found that the Commission ordered adjustment was properly included in rates.

Recommendations

Staff has no recommendations for 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 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. Staff discovered that Glenwood was not including the full amount of the AA's in several BA calculations. Glenwood inadvertently omitted the inclusion of the BA of BA for three of the eight quarterly calculations. The difference from Glenwood's BA calculation and Staff's BA calculation was of $37,921 in the customer's favor. Staff's and Company BA calculations are shown on Table II.

Recommendations

The differences between the Staff and Company calculations in the BA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment of $37,921 in the customers' favor.

Table II
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Mar-11	Adjustment $	($87,844)	$0	$0		
	Rate $/MCF	($0.2140)	$0.0000	$0.0000		
	Sales MCF	421,389	421,389	421,389		
	Recovery $	($90,177)	$0	$0		
	Balance $	$2,333	$0	$0	$2,333	
	Per Company					
	Adjustment $	($87,844)	$0	$0		
	Rate $/MCF	($0.2140)	$0.0000	$0.0000		
	Sales MCF	418,458	418,458	418,458		
	Recovery $	($89,550)	$0	$0		
	Balance $	$1,706	$0	$0	$1,706	$627

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Jun-11	Adjustment $	($292,882)	$0	$0		
	Rate $/MCF	($0.6894)	$0.0000	$0.0000		
	Sales MCF	433,274	433,274	433,274		
	Recovery $	($298,699)	$0	$0		
	Balance $	$5,817	$0	$0	$5,817	
	Per Company					
	Adjustment $	($259,270)	$0	$0		
	Rate $/MCF	($0.6894)	$0.0000	$0.0000		
	Sales MCF	435,427	435,427	435,427		
	Recovery $	($300,183)	$0	$0		
	Balance $	$40,913	$0	$0	$40,913	($35,096)

Table II
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year End:	Adjustment $	$101,228	$0	$0		
	Rate $/MCF	$0.2452	$0.0000	$0.0000		
Sep-11	Sales MCF	429,816	429,816	429,816		
	Recovery $	$105,391	$0	$0		
	Balance $	($4,163)	$0	$0	($4,163)	
	Per Company					
	Adjustment $	$112,555	$0	$0		
	Rate $/MCF	$0.2452	$0.0000	$0.0000		
	Sales MCF	432,150	432,150	432,150		
	Recovery $	$105,963	$0	$0		
	Balance $	$6,592	$0	$0	$6,592	($10,755)

	Per Staff	AA	RA	BA	Total BA	Difference
Year End:	Adjustment $	$38,209	$0	$0		
	Rate $/MCF	$0.0918	$0.0000	$0.0000		
Dec-11	Sales MCF	398,007	398,007	398,007		
	Recovery $	$36,537	$0	$0		
	Balance $	$1,672	$0	$0	$1,672	
	Per Company					
	Adjustment $	$38,209	$0	$0		
	Rate $/MCF	$0.0918	$0.0000	$0.0000		
	Sales MCF	405,638	405,638	405,638		
	Recovery $	$37,238	$0	$0		
	Balance $	$971	$0	$0	$971	$701

Table II
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Mar-12	Adjustment $	($27,897)	$0	$0		
	Rate $/MCF	($0.0647)	$0.0000	$0.0000		
	Sales MCF	362,798	362,798	362,798		
	Recovery $	($23,473)	$0	$0		
	Balance $	($4,424)	$0	$0	($4,424)	
	Per Company					
	Adjustment $	($27,897)	$0	$0		
	Rate $/MCF	($0.0647)	$0.0000	$0.0000		
	Sales MCF	364,381	364,381	364,381		
	Recovery $	($23,575)	$0	$0		
	Balance $	($4,322)	$0	$0	($4,322)	($102)

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Jun-12	Adjustment $	($234,505)	$0	$0		
	Rate $/MCF	($0.5604)	$0.0000	$0.0000		
	Sales MCF	352,893	352,893	352,893		
	Recovery $	($197,761)	$0	$0		
	Balance $	($36,744)	$0	$0	($36,744)	
	Per Company					
	Adjustment $	($234,505)	$0	$0		
	Rate $/MCF	($0.5604)	$0.0000	$0.0000		
	Sales MCF	352,514	352,514	352,514		
	Recovery $	($197,549)	$0	$0		
	Balance $	($36,956)	$0	$0	($36,956)	$212

Table II
Balance Adjustment

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Sep-12	Adjustment $	$35,378	$0	$0		
	Rate $/MCF	$0.0837	$0.0000	$0.0000		
	Sales MCF	350,720	350,720	350,720		
	Recovery $	$29,355	$0	$0		
	Balance $	$6,023	$0	$0	$6,023	
	Per Company					
	Adjustment $	$35,378	$0	$0		
	Rate $/MCF	$0.0837	$0.0000	$0.0000		
	Sales MCF	350,098	350,098	350,098		
	Recovery $	$29,303	$0	$0		
	Balance $	$6,075	$0	$0	$6,075	($52)

	Per Staff	AA	RA	BA	Total BA	Difference
Year End: Dec-12	Adjustment $	$73,062	($39,704)	$0		
	Rate $/MCF	$0.1691	($0.0919)	$0.0000		
	Sales MCF	359,351	359,351	359,351		
	Recovery $	$60,766	($33,024)	$0		
	Balance $	$12,296	($6,680)	$0	$5,616	
	Per Company					
	Adjustment $	$66,470	$39,704	$0		
	Rate $/MCF	$0.1691	$0.0919	$0.0000		
	Sales MCF	358,708	358,708	358,708		
	Recovery $	$60,658	($32,965)	$0		
	Balance $	$5,812	($6,739)	$0	($927)	$6,543
					TOTAL	**($37,921)**

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.

Staff performed an analysis of the UFG for the twelve-month periods ending July 2011 and July 2012. Staff used the total volume delivered by Duke to Glenwood's city-gate less metered sales and transportation volumes divided by the total Duke delivers to arrive at the systems' average unaccounted-for gas rates. The results of the Staff's calculation are shown in Table III below. The GCR Rule allows for up to five percent UFG.

Table III

System Average UFG Rates
(unless otherwise indicated, values in Mcf)

12 Months Ending	Duke Deliveries Mcf	Glenwood Volumes Mcf	Difference Mcf	UFG %
July 31, 2011	577,607	579,565	(1,958)	(.34%)
July 31, 2012	580,604	582,962	(2,358)	(.41%)

Glenwood's UFG level is negative which indicates that there are measurement differences between Duke's metering and Glenwood's sales and transportation customers metering devices.

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. In order to determine that Glenwood 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 five customers from the Company's monthly billing registers for each month of the audit period 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

Management

The management of Glenwood did not change from the prior audit. The Company is wholly-owned by the Keith G. Smith Trust. Keith Smith is the President and Richard Perkins is the Chief Financial Officer and Treasurer. John Stenger is a consultant hired to run the day to day operations with Kristy Smith overseeing the accounting and customer service functions.

Operations

As mentioned in Section III, gas supplies are purchased by Atmos and delivered on Texas Eastern to TCO, who then delivers onto Duke's system. Duke transports Glenwood's gas under a transportation agreement executed in 1994. This transportation agreement between Glenwood and Duke expires in 2012. With the expiration of the Duke agreement, Glenwood will be presented with an opportunity to renegotiate its service or purchase the pipeline connecting its city gate to TCO.

Glenwood has tried repeatedly to discuss the pricing of its transportation service with Duke, with Duke showing little interest in reducing its charges.

Conclusion

Staff believes the charges paid by Glenwood to Duke since the inception of the 1994 contract has largely compensated Duke for its investment in the pipeline.

Recommendation

Staff believes that the charges paid by Glenwood sales customers to Duke should be reduced to reflect that the pipeline has been fully or substantially paid for and therefore the fixed monthly charge of $22,609 should be reduced or eliminated. Staff recommends that if Glenwood and Duke are unable to resolve this issue that the companies meet with Staff to facilitate discussions.

The Public Utilities Commission of Ohio
John R. Kasich, Governor
Todd A. Snitchler, Chairman

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