

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :
Regulation of the Purchased:
Gas Adjustment Clause : Case No.
Contained Within the Rate : 06-212-GA-GCR
Schedules of Ohio Gas :
Company and Related :
Matters. :

- - -

PROCEEDINGS

Before Greta See, Attorney Examiner, held at the
offices of the Public Utilities Commission of
Ohio, 180 East Broad Street, Hearing Room 11-F,
Columbus, Ohio, on Tuesday, December 19, 2006,
at 10:00 A.M.

- - -

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1 APPEARANCES:

2
3 Mr. Steven Logan Beeler
4 Assistant Attorney General
5 180 East Broad Street
6 9th Floor
7 Columbus, Ohio 43215

8 On behalf of the Staff of the
9 Public Utilities Commission
10 of Ohio.

11
12 McNeese Wallace & Nurick
13 By Ms. Gretchen J. Hummel
14 21 East State Street
15 17th Floor
16 Columbus, Ohio 43215

17 On behalf of Ohio Gas
18 Company.

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INDEX TO EXHIBITS

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MARKED ADMT

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Tuesday Morning Session,
December 19, 2006.

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ATTORNEY EXAMINER: The Public
Utilities Commission of Ohio has assigned for
hearing at this time and place Case No.
06-212-GA-GCR In the Matter of the Regulation of
the Purchased Gas Adjustment Clause Contained
Within the Rate Schedules of Ohio Gas Company
and Related Matters.

My name is Greta See, Attorney
Examiner for the Public Utilities Commission of
Ohio and I will be conducting this hearing. At
this time I would like to take the appearances
of the parties. On behalf of the Company.

MS. HUMMEL: Thank you, Your Honor.
On behalf of Ohio Gas Company McNees Wallace &
Nurick, Gretchen J. Hummel, 21 East State
Street, Columbus, Ohio 43215.

ATTORNEY EXAMINER: On behalf of the
Staff of the Commission.

MR. BEELER: Thank you, Your Honor.
James Petro, Ohio Attorney General, Duane Lucky,
Senior Deputy Attorney General, Steve Beeler,

1 Assistant Attorney General, 180 East Broad
2 Street, Columbus, Ohio 43215.

3 ATTORNEY EXAMINER: And I understand
4 that the parties have negotiated a settlement in
5 this case. Is that correct, Ms. Hummel?

6 MS. HUMMEL: Yes, Your Honor, we
7 have. And I think Mr. Beeler and I would like
8 to mark a couple documents and move them into
9 evidence before we are done here today.

10 MR. BEELER: Yes. Your Honor, I
11 would like to mark as Staff Exhibit 1 the audit
12 of the Gas Cost Recovery Mechanism of the Ohio
13 Gas Company.

14 MS. HUMMEL: If I may just suggest
15 that rather than Staff Exhibit 1 that would be,
16 keeping with the custom in these cases, that be
17 marked as Commission Ordered Exhibit 1, if that
18 is all right with you, Mr. Beeler.

19 MR. BEELER: That is.

20 MS. HUMMEL: Thank you.

21 ATTORNEY EXAMINER: Okay. Then the
22 report dated October 20th should be so marked.

23 (EXHIBIT HEREBY MARKED FOR
24 IDENTIFICATION PURPOSES)

1 MS. HUMMEL: And I would like to
2 mark as Joint Exhibit 1 a copy of
3 the Stipulation and Recommendation executed by
4 the Staff and Company this morning, and filed in
5 docketing as well this morning. And I will move
6 it into evidence in this proceeding.

7 I would also like to note for the
8 record that the proofs of publication were filed
9 in this proceeding on December 14th. And I
10 would like to mark those as Company Exhibit 1
11 and move those into evidence as well.

12 ATTORNEY EXAMINER: Any objection to
13 Company's Exhibit 1?

14 MR. BEELER: No, Your Honor.

15 (EXHIBIT MARKED FOR PURPOSES OF
16 IDENTIFICATION AND ADMITTED INTO
17 EVIDENCE)

18 ATTORNEY EXAMINER: And you marked
19 the stipulation as Joint Exhibit?

20 MR. BEELER: Yes

21 MS. HUMMEL: Yes, Your Honor.

22 ATTORNEY EXAMINER: That will be
23 marked as Joint Exhibit 1.

24 (EXHIBIT HEREBY MARKED FOR

1 IDENTIFICATION PURPOSES AND ADMITTED INTO
2 EVIDENCE)

3 ATTORNEY EXAMINER: Okay.

4 MR. BEELER: And the Commission
5 Ordered Exhibit 1, was that admitted into
6 evidence?

7 ATTORNEY EXAMINER: I am sorry.
8 If I didn't then Commission Ordered Exhibit 1
9 should be so moved and so admitted.

10 (EXHIBIT HEREBY ADMITTED INTO
11 EVIDENCE)

12 ATTORNEY EXAMINER: Anything else?

13 MS. HUMMEL: No, Your Honor.

14 MR. BEELER: No.

15 ATTORNEY EXAMINER: Thank you. The
16 hearing is adjourned. Thank you.

17 (At 10:05, A.M. the hearing was
18 concluded)

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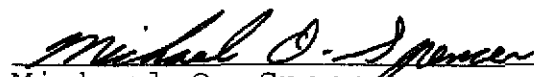
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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on December 19, 2006, and carefully compared with my original stenographic notes.


Michael O. Spencer,
Registered Professional
Reporter.

- - -

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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In the Matter of the Regulation of the)
Purchased Gas Adjustment Clause)
Contained Within the Rate Schedules of)
Ohio Gas Company and Related Matters.)

Case No. 06-212-GA-GCR

STIPULATION AND RECOMMENDATION

I. BACKGROUND

Rule 4901:1-30, Ohio Administrative Code ("O.A.C."), provides that any two or more parties to a proceeding may enter into a written or oral stipulation concerning the issues presented in such proceeding. Pursuant to Rule 4901:1-10(C), O.A.C., the Staff of the Public Utilities Commission of Ohio ("Staff") is considered a party for the purpose of entering into a stipulation under 4901:1-30, O.A.C.

The purpose of this document is to set forth the understanding of the Ohio Gas Company ("the Company" or "Ohio Gas") and the Staff (collectively, the "Signatory Parties") and to resolve all issues involved in this proceeding.

II. STIPULATION AND RECOMMENDATION

- A. It is understood by the Signatory Parties that this Stipulation and Recommendation is not binding upon the Public Utilities Commission of Ohio ("Commission"). However, the agreement contained herein is supported by information provided in the Audit Report performed by the Staff regarding Ohio Gas' gas cost recovery mechanism ("GCR") filed in this proceeding on October 20, 2006. This Stipulation and

Recommendation is based upon the Signatory Parties' desire to arrive at a reasoned and reasonable result considering the law, facts and *circumstances in this case*. Accordingly, the Signatory Parties believe this Stipulation and Recommendation should be given careful consideration by the Commission and should be adopted.

- B. This Stipulation and Recommendation is submitted for purposes of this case and should not be understood to reflect the positions which either the Staff or the Company would have taken if all the issues in the proceeding were litigated. As with most Stipulations and Recommendations reviewed by the Commission, the willingness of the Staff and the Company to jointly sponsor this document is predicated on the reasonableness of the Stipulation and Recommendation taken as a whole.
- C. This Stipulation and Recommendation is submitted subject to the condition that the Commission not make any material modifications and adopt the Stipulation as set forth below. In the event the Commission should materially modify this Stipulation or reject this Stipulation and Recommendation, the parties shall have fifteen (15) days after the order or decision effecting such material modification or rejection within which to *file with the Commission a letter requesting that the Stipulation and Recommendation be deemed withdrawn*. In such event, the Stipulation and Recommendation shall not be regarded in any way as part of the record in this proceeding, and shall not be used for any purpose in this or

any other proceeding. If this Stipulation and Recommendation is not adopted by the Commission in accordance with these conditions, it is understood that the parties shall be entitled to fully litigate, including all rights of appeal, all issues which each has attempted to resolve herein, just as though this Stipulation and Recommendation had never been submitted.

- D. In order to resolve all the issues raised in this proceeding, the agreement set forth below is offered for the Commission's consideration.

III. FINANCIAL MATTERS

The Signatory Parties agree and recommend that:

The Commission find that Ohio Gas accurately determined and billed the GCR rates for the effective three-month period ended September 30, 2004 and monthly updated Expected Gas Cost Components and GCRs for October through December 2004; January through December 2005; and January through June 2006, in accordance with Chapter 4901:1-14 and related appendices of the O.A.C. (Certificate of Accountability at page i and page 9).

IV. AUDIT RECOMMENDATIONS

The Staff recommends and Ohio Gas agrees that, in the next financial audit, the allocation of the credit amount in the Actual Adjustment ("AA") for January 2006 be examined to determine if it is properly allocated between

Community Energy Partnership Program/GCR customers and Ohio Gas' industrial pool customers. Audit Report at 5.

V. PROCEDURAL MATTERS

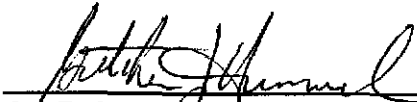
- A. The Signatory Parties agree that the proof of publication filed in this proceeding demonstrates that proper notice of this proceeding has been published in compliance with the Commission's rules and the Commission's Entry herein dated February 22, 2006, and should be admitted into evidence.
- B. The Signatory Parties agree that the Audit Report filed on October 20, 2006 should be deemed to be part of the record in this case and further agree to waive their right to conduct cross-examination of the sponsor of this document, provided this Stipulation and Recommendation is adopted by the Commission.
- C. The Signatory Parties agree and intend to support the reasonableness of this Stipulation and Recommendation before the Commission and in any appeal from the Commission's adoption or enforcement of this Stipulation and Recommendation. If not finally adopted by the Commission or if rejected by any appellate court, this Stipulation and Recommendation shall not prejudice any of the positions taken by any party on any issue before the Commission in this or any other proceeding, is not an admission of fact by any of the parties, and shall not be admissible evidence in this or any other proceeding. This Stipulation and Recommendation is submitted for purposes of this case only, and may not be relied upon or used in any other

proceeding except as necessary to enforce the terms of this Stipulation and Recommendation.

Agreed to and signed this 19th day of December, 2006.


On Behalf of the Staff of the
Public Utilities Commission of Ohio

Steven Beeler
Assistant Attorney General
Public Utilities Section
180 East Broad Street
Columbus, OH 43266-0573


On Behalf of Ohio Gas Company

Gretchen J. Hummel
McNees, Wallace & Nurick LLC
Fifth Third Center
21 East State Street, 17th Floor
Columbus, OH 43215-4228

FILE



Public Utilities Commission of Ohio

Audit of The

Gas Cost Recovery Mechanism of

Ohio Gas Company

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DOCKETING DIVISION
Public Utilities Commission of Ohio

**For the Effective GCR Period
July 01, 2004 to June 30, 2006**

Case Number 06-212-GA-GCR

October 20, 2006



~~Commission Order~~
Ex. 1

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**AUDIT OF THE
GAS COST RECOVERY MECHANISM
OF
OHIO GAS COMPANY**

**FOR THE EFFECTIVE GCR PERIOD
JULY 1, 2004 THROUGH JUNE 30, 2006**

06-212-GA-GCR

October 20, 2006

Ohio Gas Company
Case No. 06-212-GA-GCR

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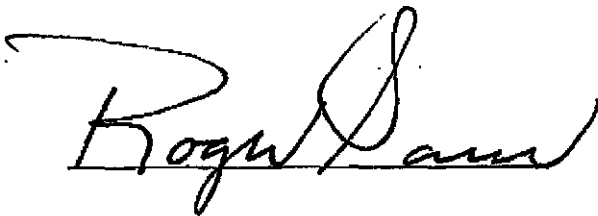
Ohio Gas Company
Case No. 06-212-GA-GCR

CERTIFICATE OF ACCOUNTABILITY

The Staff has completed the required audit of Ohio Gas Company (Ohio Gas or Company), ordered by the Public Utilities Commission of Ohio (PUCO or Commission), of the Gas Cost Recovery (GCR) rates for the three-months periods ended September 30, 2004 and monthly updated Expected Gas Cost Components and GCRs for October, November and December 2004; January through December 2005 and January through June 2006; 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. 06-212-GA-GCR.

Our audit has revealed certain findings, as discussed in this audit report, which should be addressed in this proceeding. The Staff notes that the Company has accurately calculated its GCR rates for those three-month periods and monthly filings under investigation in accordance with the uniform purchase gas adjustment as set forth in Chapter 4901:1-14, Administrative Code, and related appendices.

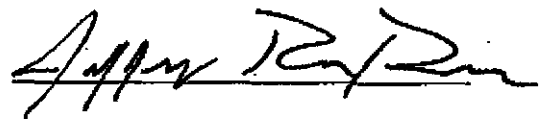
The Staff has performed an investigation into these specific areas and respectfully submits its findings and recommendations.



Roger L. Sarver

Gas Specialist

Gas, Water & Steam Division



Jeffrey G. Rodriguez

Gas Specialist

Gas, Water & Steam Division

Ohio Gas Company
Case No. 06-212-GA-GCR

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 conducted investigative interviews with appropriate company personnel at the company's offices in Bryan, Ohio. Additionally, staff reviewed and evaluated relevant company documents as necessary to understand and evaluate the company's activities.

Recommendations

Unless otherwise stated in this report, Staff's review has shown that the Ohio Gas Company accurately calculated its Gas Cost Recovery rates for the three-month and monthly periods that are discussed in this report. Following is a summary of the Staff's recommendations contained in Chapters III through IX of this report:

- Staff recommends that in the next audit the allocation of the credit amount for January 2006 be examined to determine if it is properly allocated between CEP/GCR customers and Ohio Gas' industrial pool customers.

Ohio Gas Company
Case No. 06-212-GA-GCR

Section II

Company Summary

Ohio Gas Company

Ohio Gas serves an area in Ohio located in the Northwest Corner of Ohio. This area extends from the Indiana state border east to, but not including, the Toledo area, and from the Michigan border south to Van Wert and Putnam Counties. The marketplace is primarily rural with consumption peaking during the winter. Consumers include residential heating, grain drying, agriculture, asphalt and industrial processing.

Total receipts for the year of 2005 was 9,637,080 MCF on the Ohio Gas system. Total throughput for GCR and Community Energy Partnership Program (CEP) customers was 6,263,213 MCF for 2005. Sales volumes for Ohio Gas GCR customers have declined to a very small figure due to the migration of GCR customers to CEP transportation. Total transportation volumes have increased due to the CEP program. The migration from GCR service to CEP transportation is nearly complete with only 27 customers currently being served under Ohio Gas' GCR.

Ohio Gas' customer base as of June, 2006 stands at 45,260 CEP customers, 27 GCR customers, and 120 Industrial Pool customers for a total of 45,407 customers overall. The Company's growth rate has been stable at about 600 new customers a year. Ohio Gas intends on increasing only its peak day requirements to serve the new customer growth due to the loss of industrial manufacturing processes and transport customers.

System Configuration

Ohio Gas does not operate any compressors relying on its interstate pipelines gas pressure. Ohio Gas does not operate any propane facilities.

Ohio Gas serves the market by breaking the area into 4 operating districts, each with an Area Manager familiar with their district. The districts are Swanton, Wauseon, Defiance, and Bryan. These districts were determined on geography and load.

Ohio Gas has 24 interconnects with three interstate pipelines which cross Ohio Gas markets. ANR and Panhandle pipelines travel from the Southwest to the Northeast and cross over each other near Defiance, Ohio. In addition, Crossroads travels from West to East and serves the town of Sherwood.

Ohio Gas Company
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Table I
Pipeline Interconnects

<u>Name</u>	<u>Location</u>	<u>Pipeline</u>	<u>Name</u>	<u>Location</u>	<u>Pipeline</u>
1) Ridgeville	Rt. 34 & US 6	ANR	13) Fulton CR N.	7880 CR N.	PEPL
2) Defiance South	2098 E. 2nd St.	ANR	14) Paulding CR 180	C-105	PEPL
3) Swanton	9755 Old Airport Hwy.	ANR	15) Swanton	8444 Airport Hwy.	PEPL
4) Lyons	15140 Fulton CR 10-3	ANR	16) Delta	10970 US 20A	PEPL
5) Defiance Flory	24473 Flory Rd.	ANR	17) Ridgeville	1965 Henry Co. Rd. T	PEPL
6) Edon	Wms. Co. Rd. 3, Edgerton	ANR	18) Wauseon	12975 Fulton Co. Rd. E	PEPL
7) Whitehouse	5531 Waterville Rd.	ANR	19) Defiance #1	19015 US 24	PEPL
8) Jewel	28187 Jewel Rd.	ANR	20) Defiance #2	445 Carter Ave.	PEPL
9) Ney	3040 The Bend Rd	ANR	21) Paulding	SR 111 West	PEPL
10) Defiance Elliot Rd.	25070 Elliot Rd.	ANR	22) Metamora	15340 St. Rt. 64	PEPL
11) Defiance N. Kettenring	SR 281	ANR	23) Sherwood	6470 US 127	Crossroads
12) Okolona	Rd 17D & Rd. MI	ANR	24) Yohe	CR 18	YOHE

Audit Recommendations

Staff has no recommendations for this audit period.

Ohio Gas Company
Case No. 06-212-GA-GCR

Section III

Expected Gas Cost

The Staff has reviewed Ohio Gas' calculations of its Expected Gas Cost (EGC) for the audit period. The EGC mechanism attempts to match gas revenues for the upcoming month with the anticipated cost of gas supplies. It is calculated by extending twelve-month historic purchase volumes from each supplier by the rate that is expected to be in effect during the upcoming GCR month. The cost for each supplier is summed and the total is divided by twelve-month historic 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 supply sources, purchase volumes and sales volumes.

During the audit period, Ohio Gas purchased most of its gas from Co Energy with the remaining supplies coming through Anadarko Trading Company, Sequent Energy, ProLiance Energy, and CMS Marketing. The gas supplies were delivered by ANR Pipeline Company and the Panhandle Eastern Pipeline Company, with very small quantities of gas being delivered through Crossroads.

Purchase Volumes

The proper accumulation of purchase volumes is important in calculating the Expected Gas Cost, as well as for the Staff calculation of the company's level of unaccounted-for gas. Staff noted no errors in the purchase volumes.

Sales Volumes

The Staff randomly sampled the company's Monthly Revenue Reports, Revenue – Cycle Basis Work Sheets and Daily Summaries in order to verify the calculation of monthly sales figures to assure that these reports are accurate. The Staff noted no errors in the sales volumes.

Ohio Gas Company
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Section IV

Actual Adjustment

The Actual Adjustment reconciles the monthly cost of purchased gas with the EGC rate that was billed. 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; 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 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 volumes and from the use of the wrong EGC rate.

Conclusion

Staff found no errors, omissions, or calculation differences in the Company's AA. Staff did not note any errors in this audit period however it noted allocation of a credit amount in January 2006 between the CEP/GCR customers and Ohio Gas' industrial pool customers. This falls outside of the reporting period for this audit and will be accounted for in the next financial audit.

Recommendation

Staff recommends that in the next audit the allocation of the credit amount for January 2006 be examined to determine if it is properly allocated between CEP/GCR customers and Ohio Gas' industrial pool customers.

Ohio Gas Company
Case No. 06-212-GA-GCR

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.

During the audit period Ohio Gas received one pipeline refund from Panhandle. There was no reconciliation ordered by the Commission in Case No. 04-217-GA-GCR. Staff has reviewed the refunds from the pipelines to ensure that they are properly included in Ohio Gas' RA.

Conclusion:

Staff noted no omissions or errors in the Company's RA calculation.

Ohio Gas Company
Case No. 06-212-GA-GCR

Section VI

Balance Adjustment

The Balance Adjustment (BA) mechanism corrects for under or over-recoveries of previously calculated AA's, RA's, and BA's. The BA is calculated by subtracting the product of the respective AA, RA, or BA rate and the sales to which those rates were applied from the dollar amounts of the respective AA, RA, or BA 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 historical sales, the BA calculation depicts the differences in revenues generated for each of these adjustment mechanisms using actual versus estimated sales. The sum of the differences for the AA, RA, and BA calculations is the total BA for the quarter, which is divided by historic three-month sales to obtain a new BA rate to be included in the GCR.

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, RA, or BA rate for the purpose of calculating a given quarter's Balance Adjustment.

Conclusion:

Staff found no errors, omissions, or calculation differences in the Company's BA.

Ohio Gas Company
Case No. 06-212-GA-GCR

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, August in the case of Ohio Gas, so as to minimize the effects of unbilled volumes on the calculation. The GCR Rule, Chapter 4901:1-14 (FF) (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 five (5%) for the audit period.

The Staff has performed an analysis of the UFG for the twelve-month periods ending August 2004 and August 2005. The Staff used the total sales volumes delivered divided by the total purchase volume receipts to arrive at the system's average unaccounted-for-gas rates. The results of the Staff's calculation are shown below.

Table II				
System Average UFG Rates				
Twelve Months Ended	Receipts (MCF)	Deliveries (MCF)	UFG (MCF)	UFG
August 2004	9,822,349	9,892,748.3	(70,399.3)	(0.72)%
August 2005	9,658,368	9,696,564.3	(38,196.3)	(0.40)%

Conclusion:

The appropriate level of UFG for the Company to use in the calculation of its GCR is (0 %). Staff has no recommendations for Ohio Gas' UFG calculation.

Ohio Gas Company
Case No. 06-212-GA-GCR

Section VIII

Customer Billing

The Staff has reviewed and verified the GCR and customer service base rate charges applied to sales and CEP customers' bills during the audit period. Ohio Gas' customer billing is computerized. Typical bills for various volumes of consumption were computed and compared with the company billing records to determine if the tariffs, municipal (CEP) and GCR rates were properly and timely applied. The company applied the GCR rates, which were in effect at the time the bills were prepared and sent to the customers. Although not every bill was examined, sufficient random customer bills were verified for each monthly billing period to ensure billing accuracy.

Conclusion:

Staff noted no errors in its review of Ohio Gas' customer billing.