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A report by the Staff of the

Public Utilities Commission of Ohio

Constitution Gas Transport Co., Inc.

08-205-GA-GCR

Financial Audit of the Gas Cost Recovery Mechanism For The Effective GCR Period December 1, 2005 to March 31, 2008

electric

natural gas

telephone

water

railroad

motor carrier

Constitution Gas Transport Co., Inc.
Case No. 08-205-GA-GCR

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CERTIFICATE OF ACCOUNTABILITY

The Staff has completed the required audit of the Constitution Gas Transport Co., Inc. (Constitution or Company), ordered by the Public Utilities Commission of Ohio, of the Gas Cost Recovery (GCR) rates for the monthly periods of December 2005 through March 2008; 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. 08-205-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 monthly 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 audit report.

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

Roger Sarver

Roger Sarver

Utility Specialist

Gas and Rates Division

Section I

Executive Summary

Audit Work Program

The audit investigations consisted of several components. Staff initially reviewed and evaluated relevant documents from within the Commission in preparation for the audit. Next, Staff submitted data requests for documentation of transitions and billings during the audit period. With the Company's headquartered in Utah, staff requested that the documentation be sent to the Commission offices. Staff reviewed and evaluated these documents necessary to understand and evaluate the Company's procurement activities and customer billing.

Recommendations

Unless otherwise stated in this report, Staff's review has shown that Constitution accurately calculated its GCR rates for the 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 the Company indentify the volumes billed to its sales customers, including adjustments. Constitution should provide these sales volumes to Petroleum as part of the purchase gas agreements and incorporated these volumes into its GCR filings.

- The differences between the Staff and Company calculations in the AA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment in the customer's favor in the amount of $842.56 to be included in the next GCR filing following the Commission's Opinion and Order in this case.

- 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 $22.57 in the Company's favor. This adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

- Constitution should monitor the overall market conditions for local production in its service area, as well as the overall natural gas market conditions. If conditions require, Constitution should seek to establish service with TCO and interconnect its non-integrated system to ensure reliable service to its sales customers.

- The sum of adjustments for the audit is as follows:

Actual Adjustment Reconciliation	$(842.56)
Balance Adjustment Reconciliation	$ 22.57
Total Audit Reconciliation	$(819.99)

Section II

Background and Operational Issues

Background

Constitution Gas Transport, Co., Inc. (Constitution) was organized in Ohio in September 1982. It is a closely held corporation with ownership retained by Page and Warren Blakemore. Corporate headquarters are located in Salt Lake City, Utah, where the company maintains all accounting and billing information. A single field office is maintained in Marietta, Ohio for operational purposes.

Constitution is a small local distribution company serving approximately 200 customers in southeastern Ohio. Initially Constitution transported local production to an industrial customer under self-help agreement. As the industrial customer's requirements grew, along with its system, Constitution filed for public utility status in Case No. 86-374-GA-ATA, in which the Company's initial service tariffs were approved on June 23, 1986.

Under the terms of its tariff, Constitution charged its residential customers a bundle rate of $4.50 per MCF with no customer charge and customers read their own meter. A break down of the bundled rate revealed a rate base of $1.72 per MCF and a commodity charge of $2.78 per MCF. Over the years the price of natural gas steadily increased above the $2.78 per MCF fixed commodity charge in the Company's bundled rate resulting in substantial under-recovery of the costs being paid by Constitution.

In Case No. 05-1230-GA-ATA, Constitution filed an application with the Commission to separate out its commodity charge from its bundle rate and initiate the filing of a Gas Cost Recovery mechanism (GCR). The Commission approved the Company's application on November 22, 2005. The Commission's entry established Constitution's initial GCR at $7.00 per MCF which was a substantially increase from the bundled commodity charge of $2.78, but still lower than the prevailing market prices at the time. The $7.00 per MCF rate had no true-up provision and was intended solely as a transition price from the bundled rate to market based rates. Constitution submitted its first GCR filing in January 2006 which contained only an Expected Gas Cost component of $13.98 per MCF based on the Columbia Gas Transmission's (TCO) Appalachian Index.

Operations

Currently, Constitution provides natural gas utility service to 197 residential customers. Additionally, Constitution provides transportation service to 2 industrial customers. For the 12 months ending December, 2006, sales customers accounted for 12,214 MCF, or approximately 3% of annual throughput. Transportation customers accounted for 365,301 MCF, or approximately 97% of annual throughput. This is a significant difference from most small gas companies. In general the majority of a gas company's throughput is sales volumes with a small percentage of the throughput representing transportation volumes. However, Constitution was formed to transport local production to industrial end users, therefore the vast majority of throughput is transportation volumes.

Constitution has relied exclusively upon the availability of locally-produced gas to serve its sales customers' requirements. Several local producers deliver directly into Constitution's gathering system, but Constitution purchases its supplies through its affiliate, Constitution Petroleum (Petroleum), at an Appalachian index price. Constitution's industrial transportation customers have available to them both local production and interstate deliverers from TCO.

Constitution has added five residential customers since 2006. Constitution's growth is dependent upon a customer's proximity of Constitution's system.

Miscellaneous

Constitution's distribution system is relatively new, and therefore, less prone to leakage. Constitution utilizes steel and plastic pipe for its gathering and distribution system, but only utilizes plastic pipes for its distribution system. Approximately 64% of its combined gathering and distribution system utilizes plastic pipe.

Section III

Expected Gas Cost

The Staff has reviewed Constitution's calculations of its 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 monthly GCR. 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 supply sources, purchase volumes, and sales volumes.

Supply Sources

Constitution's entire system supply requirements came from local Ohio production. During the audit period the Company purchased solely from Petroleum to serve its sales customers requirements. In turn Petroleum purchased or has access to approximately 100 wells that were physically connected to Constitution's system to ensure that the requirements of the sales customers were met.

Purchase Volumes and Sales Volumes

Staff has verified that Constitution's sold 13,407 MCF for the 12 months ending September 2007. However, purchase volumes for the same period were 13,301 or 106 MCF less. Staff has identified the differences in the volumes contained in Constitution's customer billing register and the sales/purchase volumes used to calculate purchase gas costs from Petroleum. These differences will be incorporated in staff's Actual Adjustment and Balance Adjustment calculations.

Conclusions and Recommendations

Staff has incorporated into its Actual and Balance Adjustment calculations the differences in sales volumes for several of the months during the audit period.

- Staff's has been informed by the Company that it utilizes two or three different software programs to track and maintain its accounting and billing information. Staff recommends that the Company indentify the sales volumes billed to its sale customers, including adjustments. Constitution should provide these sales volumes to Petroleum as part of the purchase gas agreements and incorporated these volumes into its GCR filings.

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 that 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 of 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 sales volumes and from the use of the wrong EGC rate.

Staff has reviewed the applicable purchase invoices, sales volumes (monthly billing registers). As noted above in the Expected Gas Cost section, there were a number of differences between the sales volumes contained the Constitution's customer billing register and the sales volumes used to calculate purchase gas costs from Petroleum.

Staff incorporated the customer billing register monthly sales volume figures in to its AA calculation along with the monthly purchase gas cost contained on the invoices from Petroleum. The difference between Staff's and Company's calculated AA are shown on Attachment 1. The difference for the audit period is 842.56 in the customers favor.

Recommendation

The differences between the Staff and Company calculations in the AA are not self-correcting through the GCR mechanism. Staff recommends a reconciliation adjustment in the customer's favor in the amount of $842.56 to be included in the next GCR filing following the Commission's Opinion and Order in this case.

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 based on volumes sold and therefore there are no supplier refunds.

Recommendations

Staff has no recommendations in this section.

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 historic 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 BA generally are the result of incorrectly reported sales volumes, but also may be due to selecting an incorrect rate from previous AA, RA, or BA calculations.

As noted in the Expected Gas Cost section, the Company had differences in its sales volumes. Staff has incorporated these sales volumes differences into it BA calculations. The differences in the Staff and Company calculated BAs were $22.57 in the Company's favor. The differences between Staff's and Company's calculated BA are shown on Attachment 2.

Recommendation

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 $22.57 in the Company's favor. This adjustment should be applied in the first GCR filing following the Opinion and Order in this case.

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 Piedmont, 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 percent (5 %) for the audit period.

As noted by Staff in the Expected Gas Cost Constitution's monthly sales volumes contained in the customer billing registers were greater than the sales volumes used by Petroleum to calculate its monthly invoices, resulting in more volumes being sold than purchased. Staff believes these differences were the result of accounting errors and not differences between volumes purchased and volumes sold.

Recommendations

Staff's recommendation is in the Expected Gas Cost section.

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 Constitution 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 for several months of the audit period. Staff then compared its recalculated bills to the customer billing register to determine any difference. Staff then requested copies of bills that were send to customers to verify that the Company billed amount per the customer register matched the bills submitted to the customers. Staff found only minor rounding differences when comparing its recalculated bills to the Company's register and found no discrepancies between the Company's billing register and the bills submitted to its customers.

Recommendations

Staff has no recommendations for the Customer Billing section.

Section IX

Management Issues

Interstate Pipeline Capacity

Currently, Constitution does not have transportation, storage, or any other service agreements with Columbia Gas Transmission Corporation (TCO), but it is physically connected to TCO. Constitution's transportation customers have interruptible transportation service with TCO to meet any requirement that can not be met from local production. All of Constitution's sales requirements are met exclusively by locally produced gas.

Market Area Issues

This is Constitution's initial GCR audit with Staff having limited knowledge of this Company's system growth and procurement history. It appears that the Company's system has grown slowly over the past 26 years with 5 new customers added from December 2006 to March 2008. The number of transportation customers has remained stable over the years fluctuating between 2 and 4 over the last 10 years with the vast majority of the system throughput attributable to transportation customers.

Constitution currently serves several small clusters or groups of customers within Washington County, Ohio. Most of Constitution's service area is non-contiguous; that is, most of the Company's distribution system is not integrated. As a result, the Company is not readily able to utilize any individual producer or groups of producers to compete to supply the majority of its system, but must, instead, rely upon individual local producers in the immediate vicinity of its 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.

Constitution continues to evaluate its existing system configuration and requirements.

Supply Issues

Constitution currently acquires its gas supplies from Constitution Petroleum. Constitution has in place an index priced contract with Petroleum. This contract is a volumetric-based contract, with no additional demand or reservation charges.

During the winters of 2006-2007 and 2007-2008, Constitution did not experience any notable problems with natural gas deliveries from its supplier. This is especially noteworthy, given that much locally-produced gas has high moisture content, unless it is treated and stripped of its liquids.

Conclusion

Constitution appears to have adequate supply procurement capabilities in place given a company of its size and limited available resources.

Recommendations

Constitution should monitor the overall market conditions of local production in its service area, as well as the overall natural gas market conditions. If conditions require, Constitution should seek to establish service with TCO and interconnect its non-integrated system to ensure reliable service to its sales customers.

Constitution Gas Transport Co., Inc.
Case No. 08-205-GA-GCR

ATTACHMENT 1
ACTUAL ADJUSTMENT

Quarter End		**Jan-06**	**Feb-06**	**Mar-06**	**AA**	**Diff**
	Per Staff					
Mar-06	**Supply Cost $**	$25,285.46	$18,999.07	$12,979.14		
	Jur. Sales MCF	1,893.9	2,027.0	1,680.8		
	Total Sales MCF	1,893.9	2,027.0	1,680.8		
	Book Cost $/ MCF	$13.3510	$9.3730	$7.7220		
	EGC$/MCF	$13.3510	$9.3730	$7.7220		
	Diff. $/MCF	$0.0000	($0.0000)	$0.0000		
	Cost Diff. $	$0.00	($0.00)	$0.00	($0.00)	
	Per Company					
	Supply Cost $	$25,284.00	$18,274.00	$12,888.00		
	Jur. Sales MCF	1,894.0	2,027.0	1,681.0		
	Total Sales MCF	1,894.0	2,027.0	1,681.0		
	Book Cost $/ MCF	$13.3495	$9.0153	$7.6669		
	EGC$/MCF	$13.3500	$9.3700	$7.7200		
	Diff. $/MCF	($0.0005)	($0.3547)	($0.0531)	$0.00	BA
	Cost Diff. $	($1.00)	($719.00)	($89.00)	($809.00)	$809.00

Quarter End		**Apr-06**	**May-06**	**Jun-06**	**AA**	**Difference**
	Per Staff					
Jun-06	**Supply Cost $**	$5,311.15	$4,703.18	$1,915.43		
	Jur. Sales MCF	671.9	592.3	308.4		
	Total Sales MCF	671.9	592.3	308.4		
	Book Cost $/ MCF	$7.9047	$7.9405	$6.2109		
	EGC$/MCF	$7.9430	$7.8130	$6.0450		
	Diff. $/MCF	($0.0383)	$0.1275	$0.1659		
	Cost Diff. $	($25.73)	$75.52	$51.16	$100.95	
	Per Company					
	Supply Cost $	$5,311.00	$4,745.00	$1,932.00		
	Jur. Sales MCF	672.0	592.0	308.0		
	Total Sales MCF	672.0	592.0	308.0		
	Book Cost $/ MCF	$7.9045	$8.0104	$6.2658		
	EGC$/MCF	$7.9400	$7.8130	$6.0450		
	Diff. $/MCF	($0.0355)	$0.1974	$0.2208	$0.00	BA
	Cost Diff. $	($24.00)	$117.00	$68.00	$161.00	($60.05)

Quarter End		Jul-06	Aug-06	Sep-06	AA	Difference
	Per Staff					
Sep-06	**Supply Cost $**	$1,310.99	$1,926.18	$2,619.13		
	Jur. Sales MCF	226.5	263.3	358.6		
	Total Sales MCF	226.5	263.3	358.6		
	Book Cost $/ MCF	$5.7880	$7.3155	$7.3038		
	EGC$/MCF	$5.9150	$7.4490	$7.2150		
	Diff. $/MCF	($0.1270)	($0.1335)	$0.0888		
	Cost Diff. $	($28.77)	($35.15)	$31.84	($32.07)	
	Per Company					
	Supply Cost $	$1,348.00	$1,879.00	$2,587.00		
	Jur. Sales MCF	227.0	263.0	359.0		
	Total Sales MCF	227.0	263.0	359.0		
	Book Cost $/ MCF	$5.9516	$7.1378	$7.2150		
	EGC$/MCF	$5.9150	$7.4490	$7.2150		
	Diff. $/MCF	$0.0366	($0.3112)	$0.0000	$0.00	BA
	Cost Diff. $	$8.00	($82.00)	$0.00	($74.00)	$41.93

Quarter End		Oct-06	Nov-06	Dec-06	AA	Difference
	Per Staff					
Dec-06	**Supply Cost $**	$3,566.02	$10,891.45	$15,771.99		
	Jur. Sales MCF	1,008.2	1,440.1	1,742.2		
	Total Sales MCF	1,008.2	1,440.1	1,742.2		
	Book Cost $/ MCF	$3.5370	$7.5630	$9.0529		
	EGC$/MCF	$3.6790	$7.6440	$9.1390		
	Diff. $/MCF	($0.1420)	($0.0810)	($0.0861)		
	Cost Diff. $	($143.16)	($116.65)	($150.00)	($409.82)	
	Per Company					
	Supply Cost $	$3,660.00	$10,972.00	$15,837.00		
	Jur. Sales MCF	1,008.0	1,440.0	1,742.0		
	Total Sales MCF	1,008.0	1,440.0	1,742.0		
	Book Cost $/ MCF	$3.6300	$7.6190	$9.0900		
	EGC$/MCF	$3.6790	$7.6440	$9.1390		
	Diff. $/MCF	($0.0490)	($0.0250)	($0.0490)	$0.00	BA
	Cost Diff. $	($49.00)	($36.00)	($85.00)	($170.00)	($239.82)

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Quarter End		Jan-07	Feb-07	Mar-07	AA	Difference
	Per Staff					
Mar-07	Supply Cost $	$14,824.80	$17,290.46	$11,679.71		
	Jur. Sales MCF	2,567.1	2,439.7	1,463.7		
	Total Sales MCF	2,567.1	2,439.7	1,463.7		
	Book Cost $/ MCF	$5.7749	$7.0871	$7.9796		
	EGC$/MCF	$5.8630	$7.2280	$8.1250		
	Diff. $/MCF	($0.0881)	($0.1409)	($0.1454)		
	Cost Diff. $	($226.16)	($343.75)	($212.82)	($782.74)	
	Per Company					
	Supply Cost $	$15,407.00	$17,634.00	$11,893.00		
	Jur. Sales MCF	2,552.0	2,440.0	1,464.0		
	Total Sales MCF	2,552.0	2,440.0	1,464.0		
	Book Cost $/ MCF	$6.0369	$7.2280	$8.1250		
	EGC$/MCF	$5.8630	$7.2280	$8.1250		
	Diff. $/MCF	$0.1739	$0.0000	$0.0000	$0.00	BA
	Cost Diff. $	*$444.00*	*$0.00*	*$0.00*	$444.00	($1,226.74)

Quarter End		Apr-07	May-07	Jun-07	AA	Difference
	Per Staff					
Jun-07	Supply Cost $	$9,358.58	$3,898.46	$2,446.01		
	Jur. Sales MCF	1,139.2	465.9	293.1		
	Total Sales MCF	1,139.2	465.9	293.1		
	Book Cost $/ MCF	$8.2150	$8.3676	$8.3453		
	EGC$/MCF	$8.3460	$8.2160	$8.4890		
	Diff. $/MCF	($0.1310)	$0.1516	($0.1437)		
	Cost Diff. $	($149.24)	$70.63	($42.12)	($120.72)	
	Per Company					
	Supply Cost $	$9,508.00	$3,828.00	$2,488.00		
	Jur. Sales MCF	1,139.0	466.0	293.0		
	Total Sales MCF	1,139.0	466.0	293.0		
	Book Cost $/ MCF	$8.3460	$8.2160	$8.4890		
	EGC$/MCF	$8.3460	$8.2160	$8.4890		
	Diff. $/MCF	$0.0000	$0.0000	$0.0000	$79.00	BA
	Cost Diff. $	$0.00	$0.00	$0.00	$0.00	($120.72)

Quarter End		Jul-07	Aug-07	Sep-07	AA	Difference
	Per Staff					
Sep-07	**Supply Cost $**	$1,888.43	$1,599.55	$1,794.90		
	Jur. Sales MCF	250.7	255.9	341.3		
	Total Sales MCF	250.7	255.9	341.3		
	Book Cost $/ MCF	$7.5326	$6.2507	$5.2590		
	EGC$/MCF	$7.6310	$6.2920	$5.2910		
	Diff. $/MCF	($0.0984)	($0.0413)	($0.0320)		
	Cost Diff. $	($24.67)	($10.57)	($10.92)	($46.16)	
	Per Company					
	Supply Cost $	$1,913.00	$1,610.00	$1,806.00		
	Jur. Sales MCF	251.0	256.0	341.0		
	Total Sales MCF	251.0	256.0	341.0		
	Book Cost $/ MCF	$7.6310	$6.2920	$5.2910		
	EGC$/MCF	$7.6310	$6.2920	$5.2910		
	Diff. $/MCF	$0.0000	$0.0000	$0.0000	$21.00	BA
	Cost Diff. $	$0.00	$0.00	$0.00	$0.00	($46.16)

($842.56)

ATTACHMENT 2
BALANCE ADJUSTMENT

Filing	Staff	AA	RA	Total BA	Difference
1 st	Adjustment $	($809.00)	0.00		
	Rate $/MCF	($0.0663)	0.0000		
	Sales MCF	13,658.3	13,658.3		
	Recovery $	($905.55)	0.00		
	Balance $	$96.55	0.00	$96.55	
	Company				
	Adjustment $	($809.00)	0.00		
	Rate $/MCF	($0.0663)	0.0000		
	Sales MCF	0.0	0.0		
	Recovery $	($888.00)	0.00		
	Balance $	$79.00	0.00	$79.00	$17.55

Filing	Staff	AA	RA	Total BA	Difference
2 nd	Adjustment $	$161.00	0.00		
	Rate $/MCF	$0.0132	0.0000		
	Sales MCF	13,407.1	13,407.1		
	Recovery $	$176.97	0.00		
	Balance $	($15.97)	0.00	($15.97)	
	Company				
	Adjustment $	$161.00	0.00		
	Rate $/MCF	$0.0132	0.0000		
	Sales MCF	0.0	0.0		
	Recovery $	$182.00	0.00		
	Balance $	($21.00)	0.00	($21.00)	$5.03
					$22.57