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Ohio Gas Company
Case No. 08-212-GA-GCR

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The Public Utilities
Commission of Ohio

A report by the Staff of the

Public Utilities Commission of Ohio

Ohio Gas Company

08-212-GA-GCR

Financial Audit of the Gas Cost Recovery Mechanism for the Effective GCR Period July1, 2006 to June 30, 2008

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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 periods July 2006 through June 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. 08-212-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 periods 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.

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Division Chief	Utility Specialist
Rates & Tariffs/Energy & Water Division	Rates & Tariffs/Energy & Water Division
Utilities Department	Utilities Department

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Section I

Executive Summary

Audit Work Program

Staff's investigation consisted of several components. Staff initially submitted a data request to Ohio Gas requesting documentation necessary to recalculate the Company's purchase gas costs, purchase volumes, customer billings, sales volumes and informational items such as number of customers and transportation through-put. Staff reviewed and evaluated the data responses along with relevant documents from within the Commission in preparation for the audit. Staff conducted interviews with appropriate company personnel and examined suppliers invoices and company created spreadsheets while at the Company's office in Bryan, Ohio.

Prior Audit Recommendation

In Case No. 06-212-GA-GCR, Staff recommended that in this audit the allocation of the credit amount for January 2006 be examined to determine if it was properly allocated between CEP/GCR customers and Ohio Gas Energy Services industrial pool customers. Staff has examined the allocated amount and is in agreement with $42,771 being credited to CEP/GCR customers. The credits were made in September and October 2006 to purchase gas costs.

Current Audit 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 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 has no recommendations for this audit period.

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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 market place is primarily rural with consumption peaking during the winter. Consumers include residential heating, grain drying, agriculture, asphalt and industrial processing.

Total throughput for the year of 2007 was 9,506,920 MCF on the Ohio Gas system. Total throughput for GCR and Community Energy Partnership Program (CEP) customers was 5,945,498 MCF for the same period. 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 13 customers currently being served under Ohio Gas' GCR.

System Configuration

Physically, the Ohio Gas system consists of 16 non-interconnected isolated distribution systems with 23 interconnections with three interstate pipelines and one local producer. The three interstate pipelines which serves Ohio Gas' markets are ANR and Panhandle Eastern and Crossroads.

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

Audit Recommendations

Staff has no recommendations in this section.

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 quarter 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 quarter. 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 DTE Energy Trading, formerly CoEnergy Trading Company with small quantities of gas being supplied by Anadarko Energy Services, Cinergy Marketing and Trading, Dillon Energy, Charlevoix Energy, WPS Energy Services, Occidential Energy, Lakeshore Energy Services, Fortis Energy Marketing & Trading, Shell Trading formerly Coral Energy Resources Marketing and Total Gas & Power North America. 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.

Conclusion:

Staff found no omissions or calculation differences in this section.

Recommendation:

Staff has no recommendation in this section.

Section IV

Actual Adjustment

The Actual Adjustment reconciles the monthly cost of purchased gas with the EGC rate which 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 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 period. 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 along with the Balance Adjustment amount and the result is 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.

Recommendation:

Staff has no recommendation in this section.

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 no refunds from its suppliers or pipelines. There were no reconciliation ordered by the Commission in Case No. 06-212-GA-GCR.

Conclusion:

Staff found no refunds or reconciliation for inclusion in Ohio Gas' RA.

Recommendation:

Staff has no recommendation in this section.

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 the respective AA, or RA rate 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 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 and RA calculations is the total BA for the quarter, which is then placed as a line item in 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.

Conclusion:

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

Recommendation:

Staff has no recommendation in this section.

Section VII

Unaccounted-for-gas

Unaccounted For Gas (UFG) is the difference between gas purchased and gas sold. It is calculated on a twelve-month basis, ending in one of the lower usage summer months such as July or August. In this case staff has selected the 12 months ending August 2006 and August 2007 to minimize the effects of unbilled volumes on its calculations. 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 2006 and August 2007. The Staff used the total sales volumes deliveries 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 VI
System Average UFG Rates

Twelve Months Ended	Purchases (MCF)	Sales (MCF)	UFG (MCF)	UFG
August 2006	8,918,207	8,919,663.3	(1,456.3)	(0.02) %
August 2007	9,688,462	9,696,579.8	(8,117.8)	(0.08) %

Conclusion:

The UFG percentages as shown above are well within a reasonable level.

Recommendation:

Staff has no recommendation in this section.

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 (CEPP) 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. 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.

Recommendation:

Staff has no recommendation in this section.

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Section IX

Management & Operations

CORPORATE STRUCTURE AND ORGANIZATION

Ohio Gas is a privately owned local distribution company serving approximately 47,100 customers in Northwest Ohio. The Company's Headquarters are located in Bryan, Ohio.

The Company has 87 full time employees and one part time employee. The majority of the employees work in operations area (distribution, gas measurement and field services), followed by administrative and general, customer accounts, and construction. These areas reported through five vice-presidents to the president.

The Company has one non-regulated subsidiary, Ohio Gas Energy Service (OGES). OGES purchases all of the gas for Ohio Gas' GCR, CEP and industrial pool customers.

SUPPLY PLANNING & PROCUREMENT

Ohio Gas' supply planning starts with a gas demand forecast which utilized spreadsheet based models that were developed in-house. The models project peak day, monthly and annual load forecasts by incorporating weather-normalized historical data by customer class. The inputs included a use factor for each month by customer class, and a design day temperature of minus 9 F, which represented the probability of occurrence of about once in every 10 years.

Ohio Gas' portfolio of capacity entitlements along with its suppliers remained relatively unchanged from the prior audit except for a few new suppliers. The Company continued to utilize ANR and Panhandle Eastern Pipelines for the majority of its deliveries. Ohio Gas balances its system requirements with pipeline storage services. To aid the Company in meeting its winter requirements, Ohio Gas relied upon its third party storage service (Eaton Rapids) and its pipeline storage services.

Ohio Gas purchased the majority of its supplies from DTE Energy (DTE) and moved those supplies to its city gas on Panhandle Eastern. Ohio Gas also purchased supplies from DTE under fixed and market indices pricing coupled with DTE's capacity to effectuate city gate deliveries. This allowed Ohio Gas additional flexibility in meeting its system's requirements. Anadarko supplied the majority of supplies delivered by ANR to Ohio Gas. Cinergy Trading and Fortis Energy were the suppliers who delivered into Crossroads.

SYSTEM GROWTH & CONSTRAINTS

Ohio Gas' system has grown slowly with the addition of approximately 200 residential and 81 commercial customers in the last year. The slow growth was partially attributable to the poor economy and the loss of jobs which has resulted in some net growth as new customers were added at the same time as other customers were being disconnected for non-payment. Even though Ohio Gas is adding small amounts of new customers, it believes its system demands will remain the same or decrease slightly as use per customer continues to decline.

Recommendation:

Staff has no recommendation in this section.