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

Suburban Natural Gas Company
16-216-GA-GCR

Financial Audit of the Gas Cost Recovery Mechanisms for the Cost Incurred for the period of September 1, 2013 through August 31, 2015

July 29, 2016

Ohio | Public Utilities Commission

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Table of Contents

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 costs incurred for the period of September 1, 2013 through August 31, 2015. 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. 16-216-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

Staff's audit of Suburban's gas cost recovery pertains to both the SCOL and the CORE systems. The SCOL is Suburban's southern system in Delaware and Marion counties, while the CORE is the Company's northern system in Wood and Henry counties. The investigation consisted of several components. Staff initially submitted a data request to the Company requesting the necessary documents in order to recalculate the Company's purchased gas costs, purchase volumes, customer billings, sales volumes and informational items such as customer count and transportation throughput. Staff reviewed and evaluated the data responses along with relevant documents from within the Commission in preparation for the audit. On site, Staff conducted investigative interviews with appropriate Company personnel and examined related supplier invoices and work papers at the Company office in Cygnet, Ohio.

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 for the Actual Adjustment are not self-correcting through the GCR mechanism. Staff recommends an adjustment in the customer's favor of $38.

- Suburban should continue to monitor its customer growth in order to adequately serve its existing customers, while addressing any changes to daily and seasonal requirements.

- Suburban should continue to assess capacity entitlements based on customer growth and the changing capacity market for natural gas.

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 4,008 customers were being served by the CORE system. This is up 113 customers from the 2014 audit, but down from 5,636 customers from the 2010 audit. Customer losses from the 2010 audit are a direct result of the Company's abandonment of service to the counties of Holgate, Deshler, Malinta, Hoytville, and Hamler.

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 12,025 customers were being served by the SCOL system. This is an increase of 660 customers from the previous audit. In total, the combined CORE and SCOL systems serve approximately 16,033 customers.

Section III

Expected Gas Cost

Staff 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 supply sources, 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.

Suburban also purchased gas supplies for its SCOL system through two interconnections with Columbia Gas of Ohio (COH) at COH's standard service offer/standard choice offer 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 and Sales Volumes

Staff verified that Suburban purchased 1,943,790 Mcf of gas from gas suppliers during the first year of the audit and purchased 1,918,800 Mcf of gas during the second year of the audit. Staff was able to verify nearly all of the Company's monthly purchase volumes during the audit period. Any differences between Staff and the Company's purchase volumes were related to rounding differences.

Staff verified that Suburban's system sales volumes totaled 1,961,397 Mcf for the first year of the audit period and 1,876,451 Mcf for the second year of the audit period and these agreed with volumes filed by the Company.

Recommendations

Staff has no recommendations.

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 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 AA 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. Staff noted an error in the purchased gas costs for the months of January, February and March 2014 for the first half of the audit period and January, February, March and April 2015 for the second half of the audit period. These differences were primarily due to timing differences when Staff recognized the invoices in purchased gas costs related to increases in the pipeline lease costs with DEL-MAR pipeline for both the first and second half of the audit period. The difference between Staff's calculated AA and the Company's filed AA are shown on Table 1.

Recommendations

The errors detailed above are not self-correcting through the GCR mechanism. The Staff, therefore, recommends that the Commission order a reconciliation adjustment of $38 in the customer's favor 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

	Per Staff	Sep-13	Oct-13	Nov-13	AA	Difference
Quarter End:	Supply Cost $	$555,840	$795,358	$1,233,048		
	Jur. Sales MCF	36,158	38,558	124,324		
Nov-13	Total Sales MCF	36,158	38,558	124,324		
	Book Cost $/ MCF	$15.3726	$20.6278	$9.9181		
	EGC$/MCF	$6.8558	$6.7499	$6.9777		
	Diff. $/MCF	$8.5168	$13.8779	$2.9404		
	Cost Diff. $	$307,948	$535,097	$365,561	$1,208,606	
	Per Company					
	Supply Cost $	$555,839	$795,358	$1,233,048		
	Jur. Sales MCF	36,158	38,554	124,324		
	Total Sales MCF	36,158	38,554	124,324		
	Book Cost $/ MCF	$15.3726	$20.6297	$9.9180		
	EGC$/MCF	$6.8558	$6.7499	$6.9777		
	Diff. $/MCF	$8.5168	$13.8798	$2.9403		
	Cost Diff. $	$307,950	$535,122	$365,550	$1,208,622	($16)

	Per Staff	Dec-13	Jan-14	Feb-14	AA	Difference
Quarter End:	Supply Cost $	$1,655,806	$2,103,514	$2,504,699		
	Jur. Sales MCF	220,876	336,153	430,413		
Feb-14	Total Sales MCF	220,876	336,153	430,413		
	Book Cost $/ MCF	$7.4965	$6.2576	$5.8193		
	EGC$/MCF	$7.0342	$7.2424	$7.7662		
	Diff. $/MCF	$0.4623	($0.9848)	($1.9469)		
	Cost Diff. $	$102,111	($331,044)	($837,971)	($1,066,903)	
	Per Company					
	Supply Cost $	$1,655,052	$2,100,188	$2,500,619		
	Jur. Sales MCF	220,876	336,153	430,413		
	Total Sales MCF	220,876	336,153	430,413		
	Book Cost $/ MCF	$7.4931	$6.2477	$5.8098		
	EGC$/MCF	$7.0342	$7.2424	$7.7662		
	Diff. $/MCF	$0.4589	($0.9947)	($1.9564)	$0	
	Cost Diff. $	$101,360	($334,371)	($842,060)	($1,075,071)	$8,168

Table I
Actual Adjustment

	Per Staff	Mar-14	Apr-14	May-14	AA	Difference
Quarter End: May-14	Supply Cost $	$2,102,368	$1,083,411	$716,099		
	Jur. Sales MCF	320,892	226,633	104,138		
	Total Sales MCF	320,892	226,633	104,138		
	Book Cost $/ MCF	$6.5516	$4.7805	$6.8764		
	EGC$/MCF	$7.9016	$7.9005	$8.1209		
	Diff. $/MCF	($1.3500)	($3.1200)	($1.2445)		
	Cost Diff. $	($433,204)	($707,094)	($129,600)	($1,269,897)	
	Per Company					
	Supply Cost $	$2,103,497	$1,083,410	$716,099		
	Jur. Sales MCF	320,892	226,633	104,138		
	Total Sales MCF	320,892	226,633	104,138		
	Book Cost $/ MCF	$6.5552	$4.7805	$6.8765		
	EGC$/MCF	$7.9016	$7.9005	$8.1209		
	Diff. $/MCF	($1.3464)	($3.1200)	($1.2444)	$0	
	Cost Diff. $	($432,049)	($707,095)	($129,589)	($1,268,733)	($1,164)

	Per Staff	Jun-14	Jul-14	Aug-14	AA	Difference
Quarter End: Aug-14	Supply Cost $	$525,189	$511,791	$529,217		
	Jur. Sales MCF	52,140	36,006	35,108		
	Total Sales MCF	52,140	36,006	35,108		
	Book Cost $/ MCF	$10.0728	$14.2141	$15.0738		
	EGC$/MCF	$7.4710	$7.1927	$6.5781		
	Diff. $/MCF	$2.6018	$7.0214	$8.4957		
	Cost Diff. $	$135,657	$252,813	$298,270	$686,739	
	Per Company					
	Supply Cost $	$532,222	$511,791	$529,217		
	Jur. Sales MCF	52,139	36,006	35,108		
	Total Sales MCF	52,139	36,006	35,108		
	Book Cost $/ MCF	$10.2077	$14.2141	$15.0738		
	EGC$/MCF	$7.4710	$7.1927	$6.5781		
	Diff. $/MCF	$2.7367	$7.0214	$8.4957	$0	
	Cost Diff. $	$142,689	$252,813	$298,267	$693,768	($7,030) *

* Differences between the Staff's and Company's calculations are due to rounding.

Table I
Actual Adjustment

	Per Staff	Sep-14	Oct-14	Nov-14	AA	Difference
Quarter End: Nov-14	Supply Cost $	$637,270	$872,066	$1,323,529		
	Jur. Sales MCF	34,600	48,436	123,435		
	Total Sales MCF	34,600	48,436	123,435		
	Book Cost $/ MCF	$18.4182	$18.0046	$10.7225		
	EGC$/MCF	$6.6708	$6.7578	$6.6977		
	Diff. $/MCF	$11.7474	$11.2468	$4.0248		
	Cost Diff. $	$406,460	$544,748	$496,800	$1,448,008	
	Per Company					
	Supply Cost $	$637,434	$872,066	$1,323,529		
	Jur. Sales MCF	34,600	48,436	123,435		
	Total Sales MCF	34,600	48,436	123,435		
	Book Cost $/ MCF	$18.4230	$18.0046	$10.7225		
	EGC$/MCF	$6.6708	$6.7578	$6.6977		
	Diff. $/MCF	$11.7522	$11.2468	$4.0248	$0	
	Cost Diff. $	$406,626	$544,750	$496,801	$1,448,177	($169)

	Per Staff	Dec-14	Jan-15	Feb-15	AA	Difference
Quarter End: Feb-15	Supply Cost $	$1,653,947	$1,941,003	$1,792,950		
	Jur. Sales MCF	227,954	307,858	343,997		
	Total Sales MCF	227,954	307,858	343,997		
	Book Cost $/ MCF	$7.2556	$6.3049	$5.2121		
	EGC$/MCF	$6.8777	$6.0861	$5.6717		
	Diff. $/MCF	$0.3779	$0.2188	($0.4596)		
	Cost Diff. $	$86,144	$67,359	($158,101)	($4,598)	
	Per Company					
	Supply Cost $	$1,653,947	$1,940,161	$1,791,944		
	Jur. Sales MCF	227,954	307,858	343,997		
	Total Sales MCF	227,954	307,858	343,997		
	Book Cost $/ MCF	$7.2556	$6.3021	$5.2092		
	EGC$/MCF	$6.8777	$6.0861	$5.6717		
	Diff. $/MCF	$0.3779	$0.2160	($0.4625)	$0	
	Cost Diff. $	$86,144	$66,497	($159,099)	($6,457)	$1,860 *

* Differences between the Staff's and Company's calculations are due to rounding.

Table I
Actual Adjustment

	Per Staff	Mar-15	Apr-15	May-15	AA	Difference
Quarter End: May-15	Supply Cost $	$1,368,584	$687,305	$494,593		
	Jur. Sales MCF	374,837	200,961	94,934		
	Total Sales MCF	374,837	200,961	94,934		
	Book Cost $/ MCF	$3.6511	$3.4201	$5.2099		
	EGC$/MCF	$5.6484	$5.3139	$5.0118		
	Diff. $/MCF	($1.9973)	($1.8938)	$0.1981		
	Cost Diff. $	($748,661)	($380,580)	$18,806	($1,110,435)	
	Per Company					
	Supply Cost $	$1,368,203	$687,286	$496,677		
	Jur. Sales MCF	374,837	200,961	94,934		
	Total Sales MCF	374,837	200,961	94,934		
	Book Cost $/ MCF	$3.6501	$3.4200	$5.2318		
	EGC$/MCF	$5.6484	$5.3139	$5.0118		
	Diff. $/MCF	($1.9983)	($1.8939)	$0.2200	$0	
	Cost Diff. $	($749,037)	($380,600)	$20,885	($1,108,751)	($1,684)

	Per Staff	Jun-15	Jul-15	Aug-15	AA	Difference
Quarter End: Aug-15	Supply Cost $	$464,795	$458,142	$458,114		
	Jur. Sales MCF	46,291	38,239	34,911		
	Total Sales MCF	46,291	38,239	34,911		
	Book Cost $/ MCF	$10.0408	$11.9810	$13.1225		
	EGC$/MCF	$5.5887	$5.5441	$5.6555		
	Diff. $/MCF	$4.4521	$6.4369	$7.4670		
	Cost Diff. $	$206,091	$246,140	$260,677	$712,909	
	Per Company					
	Supply Cost $	$464,795	$458,003	$458,253		
	Jur. Sales MCF	46,291	38,239	34,911		
	Total Sales MCF	46,291	38,239	34,911		
	Book Cost $/ MCF	$10.0408	$11.9773	$13.1265		
	EGC$/MCF	$5.5887	$5.5441	$5.6555		
	Diff. $/MCF	$4.4521	$6.4332	$7.4710	$0	
	Cost Diff. $	$206,092	$245,999	$260,820	$712,911	($3) *
					TOTAL:	($38)

* Differences between the Staff's and Company's calculations are due to rounding.

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.

Suburban had one refund adjustments during the audit period of September 2013 through August 2015. That adjustment went into effect in the November 2013 quarter and concluded in the August 2014 quarter. Staff verified that the Company correctly passed back the refund over a twelve-month period.

As a result of the Commission's Opinion and Order in Suburban's last GCR audit proceeding in Case No. 14-216-GA-GCR, the Company was ordered to implement a reconciliation adjustment of $19,590 which addressed differences between the Staff's and the Company's calculated AA and Balance Adjustment (BA) calculations. Due to the timing of the Commission's Opinion and Order, the reconciliation adjustment of $19,590 was not implemented in time to be completely passed back to customers during the current audit period. Staff will verify in the next audit that the Company properly passed back the refund to customers over four consecutive quarters.

Recommendations

Staff has no recommendations in this area.

Section VI

Balance Adjustment

The Balance Adjustment 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 did not find any differences between the Company's and Staff's BA calculations.

Recommendations

Staff has no recommendations in this area.

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 2014 and August 2015. Staff used receipts (Atmos and COH invoiced amounts) volumes less deliveries GCR sales 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 II below.

The GCR Rule allows for up to 5% UFG.

Table II
System Average UFG Rates
Values in Mcf

12 Months Ended	Receipts	Deliveries	UFG	UFG %
August 2014	1,943,790	1,961,397	(17,607)	-0.91%
August 2015	1,918,800	1,876,451	42,349	2.21%

Conclusion

Suburban's UFG for both periods fell well under the acceptable range of 5% allowed by the GCR rule.

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, a sample of customer bills were randomly picked and verified in each monthly billing period in order to ensure billing accuracy. Staff found no errors in the inclusion of GCR rates in customers' bills.

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 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 of Suburban's application the CORE system customer base decreased by over 1,660 customers from the 2010 audit to 3,975 as of December 2011. However, as of August 2015, the CORE system served approximately 4,008 customers which is a gain of 33 customers since the end of the previous audit.

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 12,025 customers as of August 2015. During this audit period, Suburban's customer growth was primarily limited to the SCOL system, which experienced approximately 660 more customers served than in the prior 2014 audit. For the combined Suburban system (both CORE and SCOL systems), the Company provides service to approximately 16,033 customers. Overall, Suburban experienced growth of 693 customers or 4.3%.

Recommendation

Staff believes that Suburban should continue to monitor its customer growth in order to adequately serve its existing customers, while addressing any changes to 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 that same audit, Staff examined the construction costs and lease costs for the years 2006 and 2007. In the current audit, Staff verified Suburban's inclusion of lease payments from September 2013 through August 2015. Staff found that Suburban included $1,526,161of DEL-MAR lease payments for the period September 2013 through August 2014 and $1,549,216 for the period September 2014 through August 2015. Staff notes that during the audit period the monthly pipeline lease rental costs increased twice. In January 2014, the monthly lease rental fee increased from $124,460 to $128,540. In January 2015, the monthly lease rental increased again to its current level of $129,382. This resulted in a total increase of 3.95% over the past two years.

The differences between Staff's purchased gas costs and the Company's discussed in the Actual Adjustment sections, is primarily due to the increases in the DEL-MAR pipeline lease rental costs that that were billed to Suburban in years 2014 and 2015. The new lease costs went into effect in January 2014 and January 2015, however Suburban did not receive the invoice until February 2014 and April 2015. Suburban continued to bill the previous lease costs for those months, until the new invoice was received. Then Suburban made the correct adjustments to account for the timing difference.

Transportation on Suburban's System

Suburban currently serves four customers under transportation arrangements. Three of these transportation customers are on the CORE system while one of the transportation customers Chase/Bank One (Chase) is contracted for firm service on the SCOL system. Following the Commission's Opinion and Order in case no. 10-216-GA-GCR, the Company was ordered to modify and update its transportation tariff with a credit of $0.25 per Mcf per month in order to recognize transport customers share of demand charges. As of August 2015, all of the transport customers were paying the demand charge.

Recommendations

Staff has no recommendations for this area.

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 resulted in a decline in its system's requirements. While the CORE system has gained some customers since the previous audit, the SCOL system continues to experience steady growth.

Annual Growth

At the start of the audit period, the SCOL and CORE systems currently had approximately 11,376 and 3,972 customers respectively. As of August 2015, the SCOL system has approximately 12,025 customers and the Core System has 4,008 customers, an overall increase of 685 customers, or 4.49%.

Purchase Gas Agreement and Firm Capacity Entitlements

At the time of the previous audit, Suburban had a capacity contract with North Coast that was set to expire on October 31, 2018. During the current audit period, North Coast Gas Transmission and Suburban filed a joint application with the Commission in Case No. 15-1265-PL-AEC, requesting permission to terminate the contract early, which would reduce the capacity on Suburban's system. The Commission approved the joint application to terminate the contract in the Finding and Order filed on September 9, 2015.

In the prior audit, Staff expressed concern that Suburban's capacity was excessive when compared to average usage of its customers across its entire system. However, as of the current audit period, Suburban's overall customer count has increased by 693 customers. With the increase in customers and the decrease in capacity due to the termination of the capacity contract with North Coast, Staff's concerns have been somewhat alleviated.

Recommendations

Suburban should continue to assess capacity entitlements based on customer growth and the changing capacity market for natural gas.