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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Investigation of the Financial Condition of Ohio's Regulated Public Utilities	**Case No. 02-2627-AU-COI**

REPLY COMMENTS OF THE EAST OHIO GAS COMPANY D/B/A DOMINION EAST OHIO

Pursuant to the Commission's October 10, 2002 Entry, The East Ohio Gas Company d/b/a Dominion East Ohio ("DEO") files its reply comments to the comments of The Ohio Consumers' Counsel ("OCC").

I. INTRODUCTION

OCC goes too far in its call for Commission action. It uses, as precedent for suggesting very broad reporting requirements for all utilities, cases in which the Commission imposed such requirements on specific companies in response to statutory requirements or specific situations that are not applicable to all utilities. While DEO is not opposed to providing information that will help assure the Commission, OCC, and the public that DEO's customers are insulated from the unregulated operations of its affiliates, DEO does object to some of OCC's suggested reporting requirements. And OCC inappropriately attempts to broaden the scope of this inquiry, by suggesting that the Commission use it as a springboard to propose minimum service standards for gas service. The Commission should consider carefully OCC's suggestions and reject those that are unnecessary or inappropriate.

II. ARGUMENT

OCC begins by suggesting that "[b]y its very nature, the relationship between a regulated company and its competitive affiliate is ripe for abuse." (OCC Comments, p. 2.) It contends that

there is "real cause for concern that Ohio utilities may use their regulated operations . . . to prop up their financially troubled unregulated entities . . . ." (*Id.*) It is regrettable that the OCC makes such statements, given that there is no basis for such accusations and given the controls already in place to ensure that there is no abuse of affiliate relationships. Based on such alarmist statements, OCC argues that there is a need for significant new requirements to be imposed on all Ohio public utilities. That call for action is overstated and inappropriate, especially for those companies that are part of a registered holding company.

A. Existing Controls Adequately Protect Ohio Consumers

As DEO pointed out in its initial comments, there is existing and extensive oversight at several levels of public utilities that are part of a holding company system, as DEO is. OCC does not acknowledge that existing oversight. The Securities and Exchange Commission ("SEC") must review and approve a wide range of transactions among affiliates in a registered holding company system. (*See, e.g.*, 15 CFR § 79*l*.) In addition, the SEC must find that any non-utility interests held by the holding company system are "necessary or appropriate in the public interest or for the protection of investors or consumers . . . ." (15 CFR § 79k(b)(1).) Thus, the Commission is not holding down the fort on its own.

The Commission can require that utilities provide the type of information DEO provided in its comments regarding whether utilities are at risk for the financial obligations of their parents or affiliates. But getting that information does not require the new and burdensome reporting requirements OCC suggests. For example, OCC contends that the Commission should seek information concerning "the nature, timing and size of affiliate transactions with the Ohio utility company and/or its other affiliated companies and/or parent company." (OCC Comments, p. 5.) If the information to which OCC refers is something more than the information already provided

by DEO in its comments, it is unnecessary.[1] Information regarding DEO's contracts with Dominion Resources Services, Inc. for services provided to DEO would already be available to the Commission in a rate case where DEO seeks reimbursement for the costs of those services. In addition, certain affiliate transactions are reviewed in GCR management performance audits. By such means, the Commission is able to review affiliate transactions that affect both commodity and non-commodity costs paid by customers, rendering other reporting requirements along those lines unnecessary. Beyond that, the only information the Commission needs regarding the financial security of the utilities is that they are not at risk for the obligations of their parent company or their affiliates.

OCC also calls for a requirement that all public utilities "report any credit downgrades for the utility, the utility's parent company or any affiliate of the utility." (OCC Comments, p. 6.) Given that this information is readily available publicly, there doesn't seem to be any need for the utility to have to inform the Commission of such downgrades, but DEO does not object to doing so. However, it would not be appropriate for the Commission to require that in such cases, the utility also provide a "detailed explanation of the reasons the downgrading occurred and the plans to address and restore the previous credit rating" (OCC Comments, p. 7), especially if the downgrading does not take the utility out of investment grade status.

OCC cites as precedent for its suggested reporting requirements those that were placed on Ohio Power Company ("OPCo") and Columbus Southern Power Company ("CSP") in Case No. 01-3289-EL-UNC. But OCC takes those requirements out of context. The monitoring of affiliate transactions in those cases was imposed by the Commission in conjunction with an

[1] Because the language is imprecise, it is not clear whether OCC is asking that the Commission seek information regarding transactions between or among affiliates of utilities, and between affiliates and the parent company, when the utility is not a party to the transaction. Such information would be beyond the Commission's purview.

application by OPCo and CSP to convert to Exempt Wholesale Generator ("EWG") status and to increase their investment authority for EWG and foreign utility company investments. The Commission's desire to monitor affiliate transactions in conjunction with those specific actions is understandable, but there is no reason to impose those requirements generally on all utilities as a result of this inquiry.

After relying on Amended Substitute Senate Bill No. 3 ("S.B. 3") to argue that the reporting requirements for electric utilities should be strengthened, OCC suggests that the Commission should put in place for Ohio's other utility industries reporting requirements "similar to those it already has in place for Ohio's [electric distribution utilities]" using "its broad powers under R.C. 4905.13 to 4905.15 to accomplish this goal." (OCC Comments, p. 11.) But if the Commission's powers were that broad in the absence of S.B. 3, there would have been no need for the General Assembly to include in S.B. 3 the corporate separation requirements on which OCC relies. The General Assembly obviously believed that there was a need for the specific corporate separation and reporting requirements that were included in S.B. 3.

The General Assembly did not see a need for such requirements for the natural gas industry. Despite the breadth of Amended Substitute House Bill No. 9 ("H.B. 9"), it does not contain any requirements with regard to affiliate relationships or affiliate transactions. The General Assembly recognized that a separation plan was not necessary for the natural gas industry, which "separated" production from distribution decades ago. Nor is there anywhere in Title 49 an affiliate transaction statute.

DEO provided in its comments the information necessary to assure the Commission (and OCC) that DEO is not exposed to any adverse consequences of the unregulated operations of its parent or affiliates. There is no need for the Commission to require anything more from DEO.

B. OCC's Call for Gas Minimum Service Standards is Inappropriate

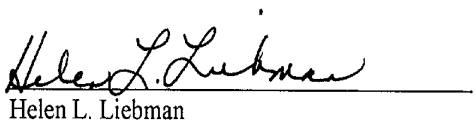
OCC attempts to broaden the scope of this inquiry by suggesting that the Commission use this opportunity to establish minimum service standards for natural gas distribution companies. The ultimate goal of determining that there will be no ill affects on the utility from unregulated services is, of course, to ensure that customers continue to receive adequate service. Thus, given assurance that the public utility is not at risk for the obligations of its parent or affiliates, and the current statutes and rules affecting natural gas service, there is no need to establish natural gas minimum service standards as a result of this inquiry.

The natural gas companies, like all other utilities, are obligated to provide necessary and adequate service. Although OCC requests that the Commission immediately open a new proceeding to promulgate detailed natural gas minimum service standards, it has not provided any basis for believing that such sweeping standards are necessary. In any event, this is not the time to open such a proceeding. The LDCs and the Commission are still dealing with the implementation of Amended Substitute House Bill No. 9 ("H.B. 9"). All of the parties involved should have the opportunity to finish that process before launching any new initiatives aimed at imposing yet another set of standards.

III. CONCLUSION

The information necessary to ensure that the utilities and their customers are protected from the effects of the unregulated businesses of affiliates is easily provided in the context of this inquiry. DEO provided that information in its comments. The Commission need do nothing more to ensure that DEO and its ratepayers are adequately protected.

Respectfully submitted,



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CERTIFICATE OF SERVICE

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