**BEFORE**
**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of | ) | |
| Columbia Gas of Ohio, Inc. for Recovery | ) | Case No. 13-0778-GA-UNC |
| of Base Chip Transition Costs | ) | |

## APPLICATION OF COLUMBIA GAS OF OHIO, INC.

On October 7, 2009, a Joint Stipulation and Recommendation was filed in Case No. 08-1344-GA-EXM ("2009 Stipulation"). The Commission adopted the 2009 Stipulation by an Opinion and Order dated December 2, 2009. The 2009 Stipulation permits Columbia to apply for recovery of the base chip portion of the transition adjustment from Columbia's purchase gas adjustment ("PGA") mechanism to the gas cost recovery ("GCR") mechanism. By this Application, Columbia is requesting authority to recover the base chip adjustment.

Prior to December 4, 1979, Columbia recovered its gas costs through the PGA. Effective December 4, 1979, the Commission authorized Columbia to terminate the PGA and to begin recovering gas costs through the GCR. As explained below, this cutover necessitated several gas cost adjustments.

The PGA clause was predicated on the assumption that all volumes purchased during a given month were billed to customers in that month. The PGA calculation priced each month's purchased volumes at the recovery rate in effect and compared the result to the actual gas purchase costs incurred. Any differential resulting in an over or under collection and recorded on the balance sheet resulted directly from the difference in the recovery rate and the average cost of gas purchased during the month.

In contrast, the GCR clause determined under or over recovery by multiplying sales volumes by the expected gas cost rate and comparing that result to the actual cost of gas purchased. Therefore, the under and over collection recorded on the balance sheet represented several factors. The first factor was the difference in the value of the volumes purchased versus the volumes sold. The second factor was the differential between the expected gas cost recovery rate and the average cost of gas purchased during the month. The first factor would equal out over a twelve-month period because it represented unbilled volumes, while the second factor represented a collectible from customers. Under the GCR there was a mismatch that occurred due to cycle billing compared to calendar month purchases.

On January 31, 1980, Columbia filed in Case No. 80-212-GA-GCR a Reconciliation Adjustment ("RA") totaling $41,545,507. Included in this RA was a transitional adjustment of $24,867,888 resulting from the cutover from the PGA to the GCR. This transitional adjustment recognized the fact that the cutover from the PGA to the GCR resulted in a large under-recovery of November 1979 gas costs. The transitional adjustment was comprised of a base chip portion of $8,199,476 and seasonal portion of $16,668,412.

The use of purchase volumes for the determination of recovered gas costs rather than sales volumes resulted in the need for recognition of a transitional adjustment. The problem resulted from the fact the volumes used for determination of recovered gas costs were used in both mechanisms. Columbia utilizes cycle billing for revenue reporting. The billing cycles are such that revenue month stretches over two calendar months. In contrast, Columbia purchased gas on a calendar month basis. As a result, the monthly over or under-recovery determination for December 1979 GCR reflected the use of volumes for determination of gas cost recovery that had been previously used for determination of recovered gas cost under the former PGA mechanism. Failure to provide for recognition of this change would have resulted in Columbia's inclusion of 10,716,000 Mcf in its GCR calculations for which no gas costs could be associated unless a reconciliation adjustment was made.

There is a distinction between the "base" and "seasonal" chips as they relate to total transitional adjustment. The "base chip" represents that portion of the transitional adjustment that is based upon base load consumption. The seasonal chip is that portion of the transitional adjustment that is based upon seasonal consumption – i.e., heating load. Because the cutover from the PGA to the GCR occurred during a winter month the seasonal portion was higher than it would have been had the cutover occurred during a summer month.

The Commission's Opinion and Order ("Order") in Case No. 80-212-GA-GCR recognized that in November, 1979, Columbia incurred gas costs attributable to both the seasonal and base chip unbilled volumes. A copy of the Order is attached hereto as Attachment 1. The Order noted that because the GCR is designed to provide for recovery of costs from the effective transition date forward it recognized revenues attributable to the volumes delivered, but did not recognize any of the purchased gas costs. The Commission concluded that Columbia should be entitled to collect the seasonal portion of the revenue it would have collected were it not for the implementation of the GCR mechanism. Accordingly, a transition adjustment of $16,668,412 was authorized. However, the Commission found that the base chip portion of the transition adjustment was different from the seasonal portion in that the base chip component is always a constant factor in the normal recovery mechanism of the GCR. Thus the Commission ordered the refund of the base chip transition adjustment of $8,199,476. Nonetheless, the Commission recognized that Columbia would eventually be entitled to recover the base chip portion of the transition adjustment. The Commission stated that should the GCR mechanism continue until Columbia goes out of business, the appropriate time to address recovery of the base chip is when that event occurs. This provision of the Order is basis for Columbia's establishment of a base chip deferral that has been reflected on Columbia's books for over 30 years.

Columbia's GCR mechanism terminated on April 1, 2010, when Columbia began purchasing and selling gas by means of an auction process. This termination of the GCR mechanism was agreed to by Columbia and a large number of stakeholders in the 2009 Stipulation. The Commission's Order in Case No. 80-212-GA-GCR recognized the need to account for recovery of the base chip transition costs to be recovered at the time that Columbia goes out of business. This finding was based upon the assumption the GCR mechanism would continue until that event occurs. In recognition of the fact that the GCR mechanism would be terminated April 1, 2010, the parties in Case No. 08-1344-GA-EXM agreed that:

> At the end of the initial term of the Stipulation (March 31, 2013), if a pattern of auctions has taken place so that it appears that Columbia will not be returning to the GCR mechanism, then Columbia may apply for, and the signatory Parties will support, recovery of the base chip portion of the transition adjustment from the prior purchase gas adjustment ("PGA") mechanism to the GCR mechanism, which recovery the Parties agree would be in accordance with the Commission's Opinion and Order, at pages 5-11, in Case No. 80-212-GA-GCR (April 14, 1981). However, OCC

reserves the right to oppose Columbia's base chip application in conjunction with its opposition of an SCO auction.[1]

In the three plus years since the Commission adopted the 2009 Stipulation a pattern of auctions has taken place and it appears that Columbia will not be returning to the GCR mechanism. Columbia has concluded three highly successful auctions during the initial term of the 2009 Stipulation. Columbia has also received Commission approval to extend the auction process for an additional five years. This extension of the auction process was approved by the Commission in Case No. 12-2637-GA-EXM by Opinion and Order dated January 9, 2013. Given the success of the auction process Columbia has no plans to return to the GCR mechanism. Therefore, it is now appropriate for Columbia to recover its deferred base chip transition costs.

Columbia proposes to recover the base chip transition costs through the Choice Standard Service Reconciliation Rider ("CSRR"). This mechanism, which includes a provision for the collection of unrecovered gas costs, was originally approved by the Commission in Case No. 08-1344-GA-EXM. It should be further noted that the CSRR mechanism is applicable to those same classes of customers for which the base chip transition costs were originally incurred. Inclusion of this adjustment in the CSRR will result in an increase of approximately 5¢ per Mcf for a twelve month period.

**WHEREFORE,** for the reasons stated herein Columbia seeks authority to recover through the CSSR the base chip transition costs currently deferred on Columbia's books.

[1] 2009 Stipulation at 16.

Respectfully submitted,
**COLUMBIA GAS OF OHIO, INC.**
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**COLUMBIA GAS OF OHIO, INC.**

# ATTACHMENT 1

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 Columbia Gas of Ohio, Inc. and related matters. | ) | Case No. 80-212-GA-GCR |

OPINION AND ORDER

The Commission, coming now to consider the above-entitled matter, and having reviewed the testimony and exhibits presented at the public hearing held in this matter, and being otherwise fully advised in the premises, hereby issues its opinion and order.

APPEARANCES:

Messrs. Thomas E. Morgan, Thomas J. Brown, Jr., and Roger C. Post, 99 North Front Street, Columbus, Ohio, on behalf of Columbia Gas of Ohio, Inc.

Mr. William J. Brown, Attorney General of Ohio, by Messrs. Marvin I. Resnik and Donn D. Rosenblum, Assistant Attorneys General, 375 South High Street, Columbus, Ohio, on behalf of the Staff of the Public Utilities Commission of Ohio.

Mr. William A. Spratley, Consumers' Counsel, by Ms. Margaret Ann Samuels, Messrs. Steven M. Sherman and Martin J. Marz, Associates Consumers' Counsel, 137 East State Street, Columbus, Ohio, on behalf of the residential consumers of Columbia Gas of Ohio, Inc.

Mr. Gregory S. Lashutka, City Attorney, by Mr. John C. Klein, Assistant City Attorney, City Hall, 90 West Broad Street, Columbus, Ohio, on behalf of the City of Columbus.

Messrs. Steer, Strauss, White & Tobias, by Mr. David F. Boehm, 2208 Central Trust Tower, Cincinnati, Ohio, on behalf of Armco Inc.

OPINION:

## I. INTRODUCTION

Columbia Gas of Ohio, Inc. (Columbia or the Company) is a gas company and a natural gas company within the meaning of Section 4905.03(A)(5) and (6), Revised Code, and as such, is a public utility subject to the ongoing supervision and jurisdiction of the Commission. Columbia is, therefore, also a gas company and a natural gas company within the meaning of Rule 4901:1-14-01(B), Ohio Administrative Code (O.A.C.). Columbia is a distribution subsidiary of the Columbia Gas System and serves approximately 360 communities widely scattered throughout the State of Ohio.

Section 4905.302, Revised Code, in conjunction with Rule 4901:1-14-08, O.A.C., requires that the Commission review each gas or natural gas company's purchased gas adjustment clause at periodic hearings. On May 7, 1980, the Commission initiated this proceeding in order to review Columbia's purchased gas adjustment clause and other related matters.

Relative to the purchased gas adjustment review, Rule 4901:1-14-08, O.A.C., provides that at least thirty days prior to the date of hearing, the gas or natural gas company shall submit facts, data, or information relating to its gas cost recovery rates as the Commission requires. On August 15, 1980, Columbia filed its pre-hearing data relating to the Company's gas cost recovery rates as required by Rule 4901:1-14-08, O.A.C., and the Commission's entry of May 7, 1980.

Section 4905.302, Revised Code, and Rule 4901:1-14-07, O.A.C., require that the Commission conduct, or cause to be conducted, periodic audits of each gas or natural gas company. Rule 4901:1-14-07, O.A.C., also provides that unless otherwise ordered, the audit shall be performed by a qualified independent auditing firm selected by the company and approved by the Commission. By entry of July 2, 1980, the Commission approved Columbia's choice of Arthur Andersen & Co. as the auditor to conduct this first gas cost recovery audit. The audit report for the year ended May 31, 1980, was filed with the Commission on August 15, 1980. On September 4, 1980, the auditor filed additions to the performance portion of the audit report.

Public hearing was held in accordance with the Commission's entry of May 7, 1980, at the offices of the Commission, Columbus, Ohio, on September 15, 17, 18, and 19, 1980. Notice of the hearing was properly published in the form required by Rule 4901:1-14-08(B), O.A.C. (Company Ex. 9). The record in this case was closed on November 5, 1980, with the filing of reply briefs.

Pursuant to Section 4905.302, Revised Code, the Commission promulgated rules which establish a uniform purchased gas adjustment clause to be included in the schedules of gas and natural gas companies subject to the jurisdiction of the Commission. These rules are encompassed in Chapter 4901:1-14, O.A.C. The provisions of Chapter 4901:1-14, O.A.C., establish a gas cost recovery process which is designed to separate the cost of gas from all other costs incurred by a gas or natural gas company and to allow the company to recover these gas costs from its customers by means of a quarterly update to the gas rates charged. The audit conducted pursuant to Rule 4901:1-14-07, O.A.C., is to consist of (1) a financial audit to determine whether the costs reflected in the company's gas cost recovery rates were incurred by the company, whether the gas cost recovery rates were accurately computed by the company, and whether the gas cost recovery rates were accurately applied to customer bills; and (2) a performance audit to review, as designated by the Commission, selected aspects of the company's gas production and purchasing policies to the extent that those policies affect the gas cost recovery rate. Rule 4901:1-14-08, O.A.C., provides that the order issued following the hearing shall contain (1) a summary of the audit findings, conclusions, and recommendations; and (2) other information or directives as the Commission considers appropriate. That rule also provides that the Commission may adjust the company's future gas cost recovery rates by means of reconciliation adjustment resulting from (1) errors or erroneous reporting, (2) unreasonable or imprudent gas production or purchasing policies or practices, or (3) such other factors, policies, or practices as the Commission considers appropriate.

## II. RESULTS OF THE AUDIT

On August 15, 1980, Arthur Andersen & Co. filed with this Commission its "Annual Audit of Gas Cost Recovery Mechanism and Gas Procurement Policies and Practices for the Year Ended May 31, 1980" concerning Columbia Gas of Ohio (Comm. Ordered Ex. 1). The audit was performed in accordance with Arthur

Andersen's proposal to Columbia dated June 18, 1980, and was prepared in response to Chapter 4901:1-14, O.A.C., and the objectives outlined in the Commission's May 7, 1980 entry in this case. In addition, on September 4, 1980, Arthur Andersen filed additions to its audit report (Comm. Ordered Ex. 2). The annual audit report and its additions consist of a financial audit and a performance audit. Mr. Richard Swanson, the Arthur Andersen representative responsible for the gas cost recovery audit performed upon Columbia, testified at the hearing and was cross-examined by each participating party.

A. Financial Audit

The auditor reviewed Columbia's quarterly gas cost recovery (GCR) filings for each of the four quarters in the review period. Other than some minor clerical errors which had no effect on the computation of the GCR, no errors were noted by the auditor. After performing detailed reviews of the various components of the GCR as they became effective, the auditor concluded that the Company's procedures were operating effectively (Comm. Ordered Ex. 1 at 5).

The auditor conducted a review of the supplier refunds and reconciliation adjustments made by the Company during the audit period and reported that a net amount of $42,558,513 was passed back to Columbia's customers. The components of this net amount are set forth below.

During the first quarter of the audit period, Columbia passed back to consumers supplier refunds of $48,585,751 received in August, 1979, as well as $25,707,526 of supplier funds received prior to August, 1979, but not yet passed back (Comm. Ordered Ex. 1 at 6). An additional $4,551,323 was credited to the customers reflecting the actual cost adjustment balance arising from the Company's previous purchased gas adjustment (PGA) clause (Comm. Ordered Ex. 1 at 7). The Company reported a reconciliation adjustment of $79,437 in this first quarter resulting from the elimination of gas costs from the base rate pursuant to the Commission's entry of October 18, 1979, in Case No. 76-515-GA-ORD. The auditor reviewed the Company's computations and method of adjusting the base rate as well as the reconciliation adjustment and found it to be proper (Comm. Ordered Ex. 1 at 11, 12).

In the second quarter of the audit period, Columbia reduced the supplier refunds reported in the first quarter by $1,701,618 to reflect the Company's intentions to refund in a lump-sum payment pre-1980 refund amounts attributable to customers subject to incremental pricing (non-exempt customers). The Company determined this lump-sum based upon estimated non-exempt volumes for the eleven month period ended November 30, 1980. At the time of the hearing, Columbia was retaining this amount to ensure that the proper lump-sum refund would be given to the non-exempt customers when the exact amount became known. The auditor indicated that to the extent the lump-sum refund is greater or less than the estimate, a reconciliation adjustment will be necessary to the exempt customers (Comm. Ordered Ex. 1 at 8). The Commission Staff concurs with the auditor's observations regarding an adjustment for the exempt customers and points out that since Columbia has retained this refund, and has the benefit of this money for approximately a year, interest should be added to the $1,701,618 at a six percent annual rate (Staff Ex. 1 at 12; Tr. IV, 63).

In order to ensure that this retained pre-1980 refund is equitably distributed, the Commission finds that it should be treated in the following manner. The Company, having by this time the actual sales activity for both nonexempt and exempt customers, shall calculate the proportional share of refunds. The non-exempt customers shall be given their portion of the $1,701,618 as a lump sum payment with the applicable time-value interest applied. The residual portion of the $1,701,618 should be credited to the exempt customers with interest. In order to properly credit these exempt customers, the Company shall compute a quarterly refund credit rate and apply that credit rate to all GCRF customers in the next effective quarter. This will assure that the residual portion of the $1,701,618 refund with interest will be passed back to only the exempt customers over one quarter. Residual amounts arising from this operation shall be netted against the actual MSAC credit given to customers (V48). It should be noted that the credit applied to the GCRF rate should be applied and accounted for separately. This will assure this refund credit operation will not affect the normal MSAC credit calculations. In the future refunds received shall be placed, in total, into the normal reconciliation adjustment mechanism. The effects of this procedure will assure that non-exempt and exempt customers will receive their proportional shares of refunds from actual sales activity. For the next audit hearing, the auditor is requested to review the Company's lump-sum refund to the non-exempt customers, as well as the related adjustment on behalf of the exempt customers.

Also in the second quarter, Columbia made a $41,545,507 adjustment to reflect the alleged underrecovery of purchased gas costs for the three months ended November 30, 1979. The auditor reported that this adjustment consists of two components: a) $24,867,888 relating to unbilled volumes of gas as of the cutover date from the previous PGA mechanism to the new GCR mechanism and b) $16,667,618 reflecting unrecovered gas costs through the PGA mechanism (Comm. Ordered Ex. 1 at 14). The reconciliation adjustment for unbilled volumes is referred to as the transitional adjustment and is discussed in a later section of this opinion and order. The $16,667,618 adjustment consists of a change in the actual cost adjustment balance and an amount for supplier refunds which had already been passed back to the customers by the previous PGA mechanism. The auditor stated that the $16,667,618 is properly includable as a component in the GCR mechanism as it represents gas costs incurred which were not recovered by the Company (Comm. Ordered Ex. 1 at 15, 16).

In the fourth quarter the Company passed back to consumers $5,059,817 representing an April, 1980 refund plus interest received from Columbia Gas Transmission (Comm. Ordered Ex. 1 at 9).

The auditor reviewed the actual adjustments, increasing gas costs by $632,381 in the third quarter and decreasing gas costs by $41,334,985 in the fourth quarter, and found the computations to be proper (Comm. Ordered Ex. 1 at 9). The auditor also indicated that the Company's method for reporting and computing the components relating to incremental pricing is in compliance with the Commission's entry of December 28, 1979, in Case No. 79-1171-GA-COI (Comm. Ordered Ex. 1 at 13). With respect to the financial audit, the auditor concluded that the Company has in place operating controls and procedures to collect the necessary data for proper calculation and reporting of the GCR factor and to accurately apply the GCR factor to customers' bills (Comm. Ordered Ex. 1 at 2).

B. Performance Audit

The auditor conducted a performance audit upon Columbia to consider whether the production and purchasing policies employed by the Company promote minimum prices for gas purchased consistent with an adequate supply of gas. The auditor reported that the Company is principally a distribution company, and it owns no storage facilities and only an insignificant amount of production facilities. The principal gas supply source is pursuant to a long-term supply agreement with Columbia Gas Transmission Corporation (TCO). During the last six months of the audit period, TCO costs represented 87.1 percent of total gas costs. TCO's tariffs are regulated by the Federal Energy Regulatory Commission (FERC). Columbia also purchases synthetic natural gas (SNG) from Columbia LNG Corporation. Green Springs SNG represented 11.5 percent of the total gas costs. In addition, 1.2 percent of the total gas costs reflected purchases of locally produced gas. While it is the Company's goal to obtain as much locally produced gas as it can economically obtain, it seems unlikely that this source of supply will become significant in relation to total gas requirements due to limited local reserves. Thus, the Company plans to remain dependent upon TCO for most of its gas supply requirements (Comm. Ordered Ex. 1 at 10, 11; Comm. Ordered Ex. 2 at 1-5). Columbia also has storage agreements with Crawford Storage Service and Michigan Consolidated Gas Company (Comm. Ordered Ex. 2 at 6, 7).

The audit report indicates that the Company continually monitors deliveries of gas in order to ensure that amounts being billed by suppliers are proper, and deliveries are scheduled in order to minimize costs. The Btu content of gas is monitored on a test basis. The Company also monitors the monthly levels of unaccounted for gas for reasonableness in light of the weather and other factors. Historical unaccounted for percentages have been 2.09 percent for the year ended July 31, 1978; 1.82 percent for the year ended July 31, 1979; and 1.56 percent for the year ended July 31, 1980 (Comm. Ordered Ex. 2 at 9, 10).

The auditor concluded that the Company's procurement policies and contracts are consistent with the objective of obtaining an adequate supply of gas at minimum prices (Comm. Ordered Ex. 2 at 12). Other auditor comments and findings are discussed separately below.

## III. TRANSITIONAL ADJUSTMENT

Columbia included in its March 4, 1980 to June 4, 1980 effective GCR quarter a reconciliation adjustment of $24,867,888 to account for unbilled volumes of gas as of the December, 1979 cutover date from the previous PGA mechanism to the new GCR mechanism. The auditor explained that under the GCR mechanism the Company is entitled over time to recover its gas costs incurred subsequent to the cutover date, no more and no less. Because of cycle billing coupled with the Company's practice of not recording unbilled revenues, however, the Company will have included 10,716,000 Mcf of gas sales in the GCR calculations for which no gas costs could be associated unless a reconciliation adjustment is made. The auditor reported that the dollar significance of this unbilled cutover problem was magnified because the Company was required to change to the new GCR mechanism during the heating season. The portion of the reconciliation adjustment attributable to the heating load is $16,668,412 and is referred to as the "seasonal" portion. The remainder of the reconciliation adjustment, $8,199,476, is attributable to normal cyclical unbilled base volumes and is referred to as the "base chip". The auditor recommended that the Commission give specific recognition to this cutover problem (Comm. Ordered Ex. 1 at 14, 15).

The record reflects that at the end of November, 1979, Columbia had delivered certain volumes of gas to its customers which had been booked as an expense; but due to cycle billing, no revenues associated with these volumes had been booked. Consequently, when the GCR mechanism was implemented in December, 1979, revenues attributable to these gas sales were included within the GCR calculations, but the associated expenses incurred prior to December, 1979, were excluded. This occurred because the Company purchases volumes of gas and books those associated expenses on the basis of pipeline supplier meter readings at the end of a calendar month. Columbia then books sales volumes and revenues on a billing month basis. The result of this type of billing is that at any month end, there will be approximately one-half month's consumption that has not been billed. The normal cyclical unbilled volumes are the base chip portion of unbilled sales volumes. Under both the previous PGA mechanism and the new GCR mechanism, the base chip unbilled revenues at the end of each month would be recovered in the following month; however, each month a new base chip would be generated. Thus, at the end of any particular calendar month there is always a base portion of unbilled volumes which remains relatively constant due to the mechanics of cycle billing (Staff Ex. 1 at 5, 6; Tr. II, 112, 113, 115, 129; Tr. IV, 69, 71).

The seasonal portion of the unbilled volumes is the difference between the total unbilled volumes at the transition from the old PGA to the new GCR and the amount of normal cyclical unbilled base volumes. The seasonal portion of unbilled revenue fluctuates in size, and in any one month it is directly proportional to the changing heating requirements of the Company's customers. Coming into the heating season, gas purchases exceed metered sales, and the amount of unbilled volumes will be increasing. During the heating season, sales will then exceed purchases, and the month-ending unbilled volumes will decrease until just the normal cyclical unbilled volumes remain. Because Columbia implemented the GCR mechanism in December, 1979, the Company experienced a revenue shortfall due to the unbilled costs associated with the excess of purchase volumes over revenue volumes (Staff Ex. 1 at 4, 5; Tr. II, 5).

The record is clear that in November, 1979, Columbia did incur gas costs attributable to both the seasonal and base chip unbilled volumes. Since the GCR is a current cost recovery mechanism and is designed to allow recovery of gas costs incurred from the effective transition date forward, it will recognize the revenue attributable to volumes delivered but unbilled prior to the implementation date, but will not recognize any of the purchased gas costs associated with those volumes. Thus the GCR mechanism will reflect an over-collection to be refunded to the customers by way of the actual adjustment (Staff Ex. 1 at 6; Company Ex. 11 at 6, 7; Tr. II, 118-121, 128, 129). The Company contends that the $24,867,888 reconciliation adjustment was therefore required to account for the full recovery of all gas costs incurred by the Company prior to the implementation of the GCR. The Company argues that there is no distinction between the unbilled base portion and the seasonal portion as related to the reconciliation adjustment and that both are necessary if Columbia is to recover its gas costs actually incurred in November, 1979 (Company Ex. 11, at 6, 8, 9). At the hearing, the auditor, Staff witness Pavalko, and OCC witness Budetti all testified that the reconciliation adjustment for the seasonal portion of unbilled volumes is appropriate. The recovery of the base chip portion was contested by the Staff and OCC. For purposes of discussion, each portion of the reconciliation adjustment is addressed separately below.

As previously indicated, the amount of the reconciliation adjustment attributable to the seasonal portion of unbilled volumes is $16,668,412. Had the previous PGA mechanism continued the Company would have recovered the seasonal unbilled costs by the end of the winter heating season. Due to the mechanics and timing of the implementation of the GCR mechanism, the company will under-recover these gas costs without a reconciliation adjustment. Thus, without recognition of the seasonal portion, the Company would experience a true economic loss due to the transition from one form of gas cost recovery to another form (Staff Ex. 1 at 4, 6; OCC Ex. 1 at 18; Tr. II, 114, 143; Tr. IV, 69). The Commission is of the opinion that the Company should be authorized to make the reconciliation adjustment for the portion of unbilled sales volumes which relates to seasonal variations. It is clear that had the implementation date of the GCR occurred in the summer, the problem involving the heating load would not exist. The Company should not be penalized by the fact that the GCR became effective during the winter heating season rather than some other time. Thus, the Commission concludes that the Company should be entitled to collect the seasonal portion of the revenue it would have collected were it not for the implementation of the GCR mechanism. Accordingly, a transition adjustment of $16,668,412 will be authorized. Since Columbia has already made a reconciliation adjustment which covers this amount, no further action with respect to collection of the seasonal portion is necessary.

It should be noted at this point that the authorization of a transitional adjustment for the seasonal portion of unbilled volumes is in accord with the recommendations of all expert witnesses testifying on this issue at the hearing, including OCC witness Budetti. The record is absolutely clear that without this reconciliation adjustment, Columbia will experience a large under-recovery of gas costs. The authorization of the seasonal portion of the transitional adjustment is also in accord with the Commission's decision in River Gas Company, Case No. 80-210-GA-GCR (opinion and order dated January 21, 1981) and Cincinnati Gas and Electric Company, Case No. 80-214-GA-GCR (opinion and order dated April 1, 1981). OCC has suggested in its reply brief, however, that the Commission should defer ruling on the appropriateness of the seasonal chip portion of the transitional adjustment due to the fact that OCC's position changed between the time of the hearing and the filing of its reply brief. In its reply brief dated November 5, 1980, OCC states that no reconciliation adjustment should be allowed for the seasonal portion, contrary to the testimony of its own witness. Further OCC is concerned that the Commission might reach different conclusions in similar cases where the transitional adjustment is at issue. On November 6, 1980, Columbia filed a motion to strike the referenced portion of OCC's reply brief. On November 13, 1980, OCC filed a memorandum in opposition to Columbia's motion to strike. The Commission believes that briefs of the parties are the appropriate vehicle to present legal arguments and does not wish to preclude any party from presenting its views and will therefore deny Columbia's motion to strike. The Commission does believe, however, that certain points raised by Columbia concerning the propriety of impeaching ones own witness and its effects on the credibility of that witness are well taken. Finally, in view of our decision above and the fact that we believe it to be correct, the Commission does not believe deferral of this issue is warranted.

The base chip portion of the transition adjustment is different from the seasonal portion in that had the PGA continued, the seasonal portion would have been recovered by the Company in any one seasonal costs-incurred and costs-recovered scenario. The base portion, however, was always a constant factor in the normal recovery mechanism of the PGA. Looking at what would have occurred if the Commission had not ordered the transition from the PGA to the GCR, the base portion would have remained under the normal operation of the clause (Staff Ex. 1 at 6). It is the Staff's and OCC's position that the Company should not be allowed to recover the base portion of unbilled volumes at the present time. Under the normal operation of the old PGA, the November base unbilled of $8,199,476 would have been recovered in December. In turn though a new base unbilled portion would have been generated in December to be recovered in January (Company Ex. 11 at 7; Tr. II, 113; IV, 71). Staff witness Pavalko testified that this roll-over effect would have continued under the old PGA mechanism and does continue under the GCR mechanism until such time when the Company goes out of business. Thus the Staff indicates that the Company never intended to collect today for these base unbilled volumes because that recovery was intended to be picked up when the Company ceased operations and suspended sales of gas to its customers. The Staff believes that today's ratepayer should not have to bear the burden of the recovery of the base portion of unbilled volumes which occurred because of the switch-over from one clause to another. Further Mr. Pavalko stated that the attempt of the Company to recover anything more than the current cost of gas plus any seasonal variation to those costs is an attempt to become whole as if the Company had ceased operations and suspended sales of gas to its customers (Staff Ex. 1 at 7, 8; Tr. II, 113).

Company witness Devers agreed that the roll-over effect of unbilled base volumes would have continued under the former PGA mechanism until the Company went out of business. However, he points out that the PGA mechanism ended with the implementation of the GCR. He further indicated that under the PGA there was no constant under-recovery of the cyclical base chip for it was always recovered in the subsequent month. Mr. Devers testified that if the Company does not collect the base chip now, but waits until it goes out of business, under the mechanics of the GCR rule the revenues collected at that time for the base chip will result in a refund to the customers for gas they never paid for under the old PGA clause. Thus, the Company believes that unless a reconciliation adjustment for the base chip is authorized, the Company will experience an economic loss for which it would never recover (Company Ex. 11 at 6-8; Tr. IV, 69-71).

The Commission is of the opinion that no reconciliation adjustment should be allowed for the base chip portion of unbilled volumes. By entry of October 18, 1979, in Case No. 76-515-GA-ORD, this Commission directed that upon converting to the new GCR mechanism, the total rates to Columbia's customers should not be increased from the previous PGA mechanism. The base portion of unbilled volumes remained relatively constant under the previous PGA, and the Company would not have been finally made whole for the cyclical base portion of unbilled volumes until it ceased operations. The reconciliation adjustment made by Columbia does result in today's ratepayers paying an amount for the base chip portion that they would not have paid under the PGA had it continued; therefore, it is not in compliance with the Commission's directive that the transition to the GCR result in no increase in rates to Columbia's customers. It should be pointed out that the Company will not actually be losing any money at the present time by not collecting now for the base portion. Although we believe that the Company should not be penalized by the implementation of the new GCR cost recovery mechanism and have authorized the seasonal portion of unbilled volumes to be recovered to prevent a penalty, at the same time, we do not believe the Company should benefit economically from the transition to the new GCR clause. Therefore the Commission directs that the Company refund $8,199,476 to its customers by including that amount into the reconciliation adjustment section of the next effective GCR filing. This action is necessary to correct for the prior unauthorized reconciliation adjustment taken by the Company. In the future Columbia should follow the clear language of Chapter 4901:1-14, O.A.C., and obtain prior Commission authorization before making any reconciliation adjustments. Finally, the Commission recognizes that should the GCR mechanism continue until such time when the Company goes out of business, some provision will have to be made to account for recovery of the base chip if the Company is to be made whole for its incurred gas costs. However, the appropriate time to address the question of the collection of the base chip is when that event occurs. For the next audit performed upon Columbia, the auditor shall determine that the reconciliation adjustment was appropriately made.

## IV. GAS STORAGE COSTS

Columbia owns no storage facilities. Therefore in order to provide protection for its customers during the heating season, the Company has contracted for storage with Michigan Consolidated Gas Company (Michigan Consolidated) and Crawford Storage Service with Columbia Gas Transmission (TCO) (Company Ex. 10 at 11).

The storage agreement with Michigan Consolidated provides for the storage of up to 2.75 Bcf of gas. This gas is owned by the Company and is purchased from TCO at the regular commodity rates and designated for delivery to Michigan Consolidated through additional transportation agreements (Comm. Ordered Ex. 2 at 7; OCC Ex. 4). The first transportation agreement is between Columbia and Panhandle Eastern Pipe Line Company (Panhandle) and provides for the delivery of gas from Panhandle to Michigan Wisconsin Pipe Line Company. In turn, the second transportation agreement, between Columbia and Michigan Wisconsin, provides for the transportation of the gas received from Panhandle to Michigan Consolidated. The contracts provide for the deliveries of gas to occur during the summer period. Subsequently during the winter period, when gas is withdrawn from storage, transported from Michigan Consolidated by Michigan Wisconsin to Panhandle Eastern, and redelivered to TCO for delivery to Columbia. Under each of the contracts, Columbia pays a charge for the transportation or storage service under rates which have been approved by the Federal Energy Regulatory Commission (FERC) (OCC Ex. 2, 3, 4, 8; Tr. III, 33).

The second storage agreement is between Columbia and TCO and provides for storage of gas under the CSS (Crawford Storage Service) rate schedules of TCO. This storage agreement, dated January, 1979, continues until April, 1998. The maximum storage is 2,588,220 Mcf for the 1979-1980 contract year and 5,066,539 Mcf for the 1980-1981 contract year and thereafter. Under the contract, TCO agrees to receive from Columbia for storage, inject into storage for Columbia's account, store, withdraw from storage, and deliver to Columbia the volumes of gas specified by the contract. The charges to Columbia for this service under the CSS rate schedules of TCO are also approved by FERC (Comm. Ordered Ex. 2 at 6, 7; OCC Ex. 5; Tr. II, 59).

The question presented to this Commission is whether these charges for storage and related transportation charges are properly included within the GCR rates. The auditor and Staff witness Pavalko both advocate that these charges should be included. Mr. Pavalko testified that the costs a gas company incurs prior to getting the gas into its distribution system should be includable in the GCR mechanism as a cost of obtaining the gas it sells (Tr. III, 34-36). OCC argues that these storage charges and related transportation charges are not includable by the definitions set forth in Rule 4901:1-14-01, O.A.C.

Rule 4901:1-14-01(I), O.A.C., defines cost of gas as follows:

> "Gas costs" or "cost of gas" means the cost to a gas or natural gas company of obtaining the gas which it sells to its customers. The cost of gas shall include the transportation and storage charges of interstate pipeline suppliers to the extent that those charges are incorporated in the commodity rates or demand charges. The cost of gas does not include the cost of utility storage.

The Commission believes that the language of this rule may be misleading and that some clarification is in order. The overall focus of the UPGA rules is to separate the cost of gas from all other costs incurred by the gas company and to provide for the recovery of these gas costs. By definition, the cost of gas is the cost of obtaining the gas which a company sells to its customers. If a company is to provide for protection for its customers during the heating season, it cannot be denied that it is prudent to arrange for storage of gas in the summer for delivery to customers in the winter. Clearly the cost of obtaining this gas for winter consumption must include the cost of storing it and transporting it to the Company's distribution system. Gas located in a distant storage field is of little value to the distribution company or its customers. Rule 4901:1-14-01(I), O.A.C., sets forth an example of one type of storage charge which is includable in the GCR rate and an example of another kind of storage charge which is not includable. This is not an exhaustive list, however, of what costs are to be considered a cost of obtaining gas. Thus, the Commission finds that with the exception of utility storage, the cost to a gas company of storing gas which will later be supplied to its customers is a cost of obtaining the gas which it sells to its customers and that such costs and related transportation charges are appropriately included in the GCR rates.

OCC argues that the storage contracts with Michigan Consolidated and Crawford Storage Service fall within the definition of utility storage and are therefore excludable for purposes of determining the gas cost. Utility storage is defined by Rule 4901:1-11-01(Y), O.A.C., in the following manner:

> "Utility storage" means storage facilities operated and maintained by a gas or natural gas company, or by a subsidiary or affiliate of a gas or natural gas company, unless the charges for such facilities are incorporated in commodity rates or monthly demand charges filed with or approved by the federal energy regulatory commission.

The storage service performed by Michigan Consolidated does not fall within the definition of utility storage as these are not storage facilities operated or maintained by Columbia, or a subsidiary or an affiliate of Columbia. Consequently, charges related to Michigan Consolidated storage service are not contemplated by the definitional exclusion. The contract regarding Crawford Storage Service is somewhat different in that TCO, the operator of Crawford Storage Service, is a part of the Columbia Gas System, as is Columbia of Ohio. When examining the realities of Columbia's relationship with TCO, however, it is obvious that Columbia is no different from other Ohio distribution companies which avail themselves of Crawford Storage Service, pay the FERC approved rate, and include the charges in the GCR rates. Thus, it makes no sense to permit other companies to include these storage charges as a cost of obtaining gas but treat Columbia differently by excluding the same type of charges. This was not the intent of the uniform rules, and such treatment would result in unreasonable and discriminatory treatment of like costs. These storage charges are approved by FERC, included as a demand-type charge in Columbia's GCR filings with the Commission, and Columbia must pay these charges if it wishes to receive the storage services provided by TCO. Consequently, the Commission is of the opinion that the storage charges related to Crawford Storage Service do not fall within the definition of utility storage as contemplated by the rule and are proper costs by obtaining gas within the definition of Rule 4901:1-14-01(I), O.A.C.

## V. GRI SURCHARGE

Incorporated into the commodity rates of TCO is a Gas Research Institute (GRI) surcharge which Columbia must pay in order to receive volumes of gas from TCO. As such, the GRI surcharge is included in the GCR rates as part of the cost of includable gas supplies. OCC witness Budetti explained that the GRI is a non-profit corporation formed to direct research, development, and demonstration activities for member organizations such as TCO. The funding of the GRI is obtained by a surcharge that is flowed through to consumers. The surcharge fluctuates in accordance with the Mcf's of gas purchased by Columbia (OCC Ex. 1 at 22, 23). Mr. Budetti testified that the GRI surcharge is simply an administrative charge that has nothing to do with acquiring and transporting gas and therefore should be excluded from the GCR calculations. He recommended that it would be more appropriate to consider this charge within the context of a general rate case (OCC Ex. 1 at 23, 24; Tr. II, 102, 103).

The Staff does not agree with OCC witness Budetti. Staff witness Pavalko testified that the GRI expense should be recognized as a cost of gas for two reasons. First, the monetary impact of the surcharge is determined by and is a function of the magnitude of the volumes purchased; therefore, the funds generated by the surcharge do not remain constant. In addition, the GRI surcharge is an FERC approved rate included in the commodity rate of TCO, an interstate pipeline supplier (Staff Ex. 1 at 14, 15).

The Commission agrees with the Staff that GRI surcharges, incorporated into the FERC approved commodity rates of interstate suppliers are includable gas costs within the meaning of the UPGA rules. If Columbia wants to obtain gas from TCO, it must pay the commodity charges established by FERC which incorporate the GRI surcharge. As such, these are legitimate costs to Columbia of obtaining the gas which it sells to its customers (Tr. III, 26, 27). OCC's position with respect to GRI surcharges must therefore be rejected.

## VI. INCREMENTAL PRICING

Pursuant to the Natural Gas Policy Act of 1978, FERC established rules to implement the incremental pricing program whereby large industrial facilities which burn natural gas as a boiler fuel will be priced for that gas at a level equivalent to the price they would pay for fuel oil which they could burn as an alternative to natural gas. Accordingly, Ohio's non-exempt industrial customers pay an incremental pricing surcharge rate based on the difference between (1) the total cost of the customer's non-exempt purchases at the effective base rate and the final gas cost recovery rate and (2) the total cost of an equivalent amount of alternative fuel at the alternative fuel price ceiling, divided by the customer's total non-exempt purchases. Two matters were raised in this proceeding regarding incremental pricing which are discussed below.

### A. Tax on Incrementally Priced Gas

The incremental pricing provisions of Chapter 4901:1-14, O.A.C., include adjustments for applicable taxes to the regional alternative fuel price in determining the maximum surcharge absorption capability (MSAC) of industrial facilities. Staff witness Pavalko testified that the tax effect on volumes which are incrementally priced should be the same as if the industrial customer were truly going out into the marketplace and purchasing the appropriate volume of high sulfur #6 oil from an oil dealer in the State of Ohio. In that respect, the industrial buyer would have to pay the applicable state and local sales tax on the cost of the volumes purchased. The Staff has determined that Columbia has been calculating the tax effect on the alternative fuel price by using a gross receipts type allocation of tax, thus overstating the tax effect on the alternative fuel price. The result is that MSAC dollars have been overstated, and Columbia has taken too much from the non-exempt customer and passed back more than was necessary to the exempt customers. Since the effect of this tax calculation on MSAC dollars collected is minimal, Mr. Pavalko believes that trying to correct for past errors would not be cost justified. He recommended, however, that in future computations of the tax effect on the alternative fuel price, the Company should compute the applicable tax utilizing a sales tax methodology (Staff Ex. 1 at 9-11). The Commission concurs with the Staff's recommendation which should be implemented by the Company.

### B. Incremental Pricing Treatment of Transportation Costs

In order to implement incremental pricing, FERC established rules which set ceilings on the prices which can be charged to large industrial facilities. The alternative fuel price ceilings are published monthly by region in the Federal Register by the Energy Information Administration (EIA). In computing incremental pricing surcharges, Columbia utilizes the alternative fuel price as published by the EIA. Such procedure is in accordance with Chapter 4901:1-14, O.A.C.

OCC witness Budetti testified that the Commission's GCR calculations for the incremental pricing surcharges contain an improper comparison of alternative fuel costs and gas cost rates. He argued that the published alternative fuel prices do not contain certain transportation and storage costs to the industrial user resulting in smaller surcharges to the non-exempt customers, contrary to the intent of the Natural Gas Policy Act (OCC Ex. 1 at 33-39; Tr. III, 98). Mr. Budetti appears to suggest that the Commission adjust the alternative fuel price ceiling as published by the federal government to achieve true incremental pricing between alternative fuels and natural gas.

The Commission is of the opinion that Mr. Budetti's contentions are without merit. First of all, FERC has established comprehensive rules and regulations to carry out the intent of the Natural Gas Policy Act. These rules and regulations set forth the method of determining the alternative fuel price ceilings to be used in calculating incremental pricing surcharges on volumes of natural gas delivered for industrial boiler fuel use. This Commission does not deem it advisable to change the FERC established rules. The Commission should use the published EIA alternative fuel price to compute incremental pricing surcharges if it desires to maintain an incremental pricing system consistent with the FERC mechanism. Secondly, the transportation costs referred to by Mr. Budetti are included in the published alternative fuel price. In its September 28, 1979 order announcing the final rule implementing alternative fuel price ceilings on incremental pricing, FERC stated that transportation costs can be an important part of the delivered cost of oil and that if transportation costs were not reflected in deriving ceiling prices, those ceilings would be unnecessarily low. Thus transportation costs are to be included in the oil price data collected by EIA, so that the data reflects the price charged for oil as delivered to the buyer's terminal. See FERC Docket No. RM79-21; Order No. 50, Section VIII(B)(2)(Order dated September 28, 1979). Thus, OCC witness Budetti's recommendation conflicts with the actual operation of the incremental pricing mechanism and should be rejected.

## VII. AMENDMENT OF EXPECTED GAS COST RECOVERY RATE

On May 2, 1980, Columbia filed its third quarterly GCR filing to become effective on June 4, 1980. The rates utilized to determine the expected gas cost (EGC) recovery rate for the quarter were supplier rates in effect on April 26, 1980. Those rates were the most recent available and were those which were expected to be in effect with the start of the new quarter. On May 23, 1980, 21 days after the GCR filing had been made, TCO filed revised rates with the FERC, requesting that the new rates become effective as of June 1, 1980. The TCO filing was to adjust its current PGA downward to reflect reduced purchases of Algerian gas from Columbia LNG. TCO supplemented these LNG volumes with other, lower priced sources of supply thereby reducing its total purchased gas costs. This cost reduction prompted a revision to the rates TCO would charge its customers, including Columbia. On June 20, 1980, the FERC issued a final order adopting the reduced rates effective on TCO's June billings (Company Ex. 1 at 9; Staff Ex. 1 at 17; Tr. II, 43).

The Staff, OCC, and the City of Columbus maintain that Columbia improperly billed its customers by using the GCR rates as filed on May 2, 1980, and that Columbia should have revised its filing to reflect the proposed TCO rate reduction filed with FERC subsequent to the GCR filing but prior to the June 4, 1980 effective date of the rates. Staff witness Pavalko testified that between the GCR filing and its effective date, there is a period of thirty days which affords the opportunity to review the calculations. He indicated that within that period, Columbia realized new TCO rates were to become effective, yet it made no attempt to revise its filing to incorporate those new rates. According to Mr. Pavalko, the higher tariff rates generated recoveries in excess of what otherwise would be the appropriate level to cover the Company's gas expense, and Columbia thereby gained a monetary benefit. The Staff recommended that the Company make a reconciliation adjustment so that the Company will pay the time-value interest charge on the alleged excess recoveries (Staff Ex. 1 at 18-20; Tr. II, 133-136).

Company witness Devers indicated that the Company did not revise its GCR filing for several reasons. Even though the TCO filing was for a rate decrease and would most likely be approved, FERC had not and probably would not approve it prior to the GCR effective date. Further, Columbia had notified by letter approximately 330 communities of the new GCR rates to be effective on June 4, 1980. Finally, Columbia had nearly completed its revisions of the rate change notification forms which are required by its local office personnel for proper customer billing and verification. These rate change notification sheets provided the input for the over 700 rates which are in the computerized billing system. Mr. Devers further testified that for the quarter ended August, 1980, the Company experienced an under-collection of gas costs amounting to $3,224,206 based upon the rates originally filed. Had the Company utilized the revised TCO rates, the Company would have experienced an under-collection of $6,495,934 for the same period (Company Ex. 11 at 9, 10; Tr. IV, 75-82).

The Commission is of the opinion that the calculation of the expected gas cost to be reflected in the gas cost recovery rate for an upcoming quarter should ordinarily be based on supplier rates in existence and approved by FERC at the time of the quarterly updated gas cost recovery rate filing. It is well expected that rates of suppliers will frequently change. Therefore the quarterly filing system was established in order to accommodate such rate changes. In these quarterly filings, the Company is to estimate its expected gas costs which are anticipated to be in effect for the ensuing quarter. The expected gas costs can only be determined on the basis of a utility's reasonable expectations as of the Commission ordered filing date, which are generally the FERC rates in effect at the time. Subsequently, pursuant to Rule 4901:1-14-06, O.A.C., the quarterly updated gas cost recovery rate filed with the Commission becomes effective and is applied to customer bills for service rendered on or after the thirtieth day following the filing date established by the Commission or on or after the first day of the month following the thirtieth day after the filing date. Thus, at least a thirty day period of time is provided for Commission review of the filing and for administrative procedures of the utility. In the event a change does occur between the filing date and the effective date, any over-recoveries or under-recoveries experienced by the Company will be accounted for in the actual adjustment provisions of Chapter 4901:1-14, O.A.C. Therefore, the ordinary operation of the UPGA mechanism adequately accounts for supplier rate changes. Imposing a general requirement upon a utility to update the quarterly GCR filings subsequent to the filing date would only add unnecessary complexity and uncertainty to the filing and review process and, more often than not, lead to last minute attempts of utilities to include actual or even anticipated rate increases. Thus, as a general rule a utility should not be required to update the quarterly filings calculated and submitted in accordance with Chapter 4901:1-14, O.A.C. In the event a situation occurs which warrants deviation from the general rule, the Commission has the authority to direct a change in procedure. The Commission finds that Columbia's actions surrounding the May 2, 1980 GCR filing were reasonable, prudent, and in compliance with Chapter 4901:1-14, O.A.C., and that no action is warranted.

## VIII. WEIGHTED AVERAGE BILLINGS

Rule 4901:1-14-06, O.A.C., provides that unless the customer's actual daily consumption is known, if the GCR rate changes during a customer's billing cycle, the gas company shall apply a weighted average GCR rate to its customers bills. That rule further provides that the Commission may, for good cause shown, exempt the Company from the weighted average GCR rate requirements, taking into consideration the number of customers served by the Company, the cost to the Company and its customers of determining weighted average GCR rates, and other appropriate factors. When Columbia initially converted from the previous PGA mechanism to the new GCR mechanism, it applied for and was granted an exemption from the requirement that it use a weighted average GCR rate in its billing procedure. OCC has recommended that the Commission reconsider Columbia's exemption and that the Company implement the weighted average billing procedure.

OCC witness Budetti testified that under the bills-rendered calculation method currently employed by Columbia, the customer will frequently be billed at a higher rate than that actually in effect at the time of consumption. He conceded that the Company will ultimately receive the same total dollars under either billing procedure. He believes, however, that the weighted average billing method is more equitable to ratepayers because the customer will be billed at the GCR rate actually in effect at the time the gas is consumed (OCC Ex. 1 at 28, 29).

The Staff strongly disagrees with Mr. Budetti's recommendation. Mr. Pavalko indicated that the final GCR rate is the net of an expected gas cost, plus or minus adjustments. To the extent the GCR is billed to recover the current cost of gas, to bill a weighted average GCR rate would mean that the Company would have to pro-rate all the adjustments in order to assure recovery of the current cost of gas. This exercise would require extensive computer and man-hour resources, not only to develop the GCR, but to monitor it as well. The Staff believes that this type of exercise is not cost justified and that the application of a weighted average GCR would cause confusion among customers as well as place a considerable burden upon the GCR monitoring process (Staff Ex. 1 at 16). The Commission agrees with its Staff that the previously granted exemption from the requirement that a weighted average gas cost recovery rate be utilized should remain in full force and effect. No evidence has been presented in this proceeding to warrant a change in Columbia's current billing procedure. In fact, the record fully supports the use of the bills-rendered method as the most cost justified method. Further, the same number of dollars will be collected from the customers under either billing procedure.

## IX. COVE POINT LNG

Columbia's principal gas supply source is from TCO. A part of TCO's supply is liquefied natural gas (LNG) from the Cove Point LNG facility. The FERC approved rates under which Columbia purchases gas from TCO include the rolled-in costs for Cove Point LNG. In April of 1980, the Cove Point facility ceased receiving LNG from Algeria, and at the present time the Cove Point facility is supplying minimum quantities of gas. While TCO's rates have been lowered to reflect reduction in Cove Point volumes, to some extent costs of Cove Point are included in the tariff rates of TCO (Tr. II, 69; VI, 24, 26, 30, 31, 86-88). City of Columbus witness Rothey recommended that Columbia's GCR calculations should be adjusted to reflect the unavailability of the LNG volumes (City of Cols. Ex. 1). OCC joins in this recommendation (OCC Ex. 1 at 17).

No party to this proceeding contends that Columbia's practice concerning the purchase of gas from TCO is unjust or unreasonable. Nor is there any dispute that some Cove Point LNG costs are included in TCO's commodity rates established by FERC. Further, no one contests the fact that FERC regulates the rates TCO charges Columbia or that Columbia cannot buy gas from TCO without paying the rates established by FERC. Under Rule 4901:1-14-01, O.A.C., supplies of natural gas or liquefied natural gas obtained from interstate pipeline suppliers are a part of primary gas supplies and as such are includable gas supplies under the GCR mechanism. The purpose of the GCR rules is to provide for recovery of the cost of includable gas supplies. Therefore absent errors, erroneous reporting, or unreasonable gas purchasing practices, the cost of gas Columbia receives from TCO should be recovered under the GCR mechanism. The propriety of the various components of TCO's commodity rates, including costs of Cove Point LNG, are determined in FERC proceedings and are appropriately challenged in those proceedings. To accept Mr. Rothey's proposed adjustments to the FERC approved rates, which Columbia has no choice in paying, would result in a denial of the recovery of part of the cost of Columbia's includable gas supplies and is contrary to the intent of the GCR mechanism. The Commission therefore will not make the adjustment regarding LNG costs advocated by the City of Columbus and the OCC.

## X. GREEN SPRINGS SNG

Columbia purchases synthetic natural gas (SNG) from Columbia LNG which operates an SNG plant located at Green Springs, Ohio. The SNG volumes purchased comprise about 6 percent to 7 percent of Columbia's current firm gas supplies. The purpose of the Green Springs reforming plant was to alleviate critical shortages in natural gas supplies which existed in the early 1970's thus minimizing curtailments and providing a large volume new source of base load supplies. Pursuant to the ten-year contract, Columbia pays its proportionate share of the annual estimated gas costs on a monthly basis with adjustments for over-charges or under-charges made annually. The gas costs are based upon Columbia LNG's cost of service regardless of the amount of gas delivered. From the latest data available at the hearing, Columbia was paying $4.79 per Mcf plus transportation charges for Green Springs SNG (Comm. Ordered Ex. 2 at 4; Company Ex. 10 at 6-8; OCC Ex. 6; Company Ex. 8, Schedule I-A). Once again, the issue of the cost and pricing of Green Springs SNG is before the Commission for consideration.

OCC witness Budetti and City of Columbus witness Rothey testified that there is presently a surplus of lower cost natural gas available and that the continued roll-in of the higher priced SNG is no longer justified (City of Col. Ex. 1; Tr. II, 70; IV, 11). They contend therefore that it is unreasonable to continue to place the entire burden of the cost of Green Springs SNG upon Columbia's customers under the current gas supply conditions. OCC recommends that the cost of SNG over and above the rate Columbia pays to TCO for its natural gas supply, currently around $2.60 per Mcf, should be excluded from the GCR calculations and that a reconciliation adjustment should be ordered. The City of Columbus suggests that the costs attributable to SNG and allowed in the GCR calculations should be reduced so that some of the risks associated with SNG production are shifted to the Company and its stockholders.

Company witness Lee indicated that Green Springs SNG was originally used to off-set known deficiencies in the gas supply and that without Green Springs SNG, the deficiencies would exist today. Columbia has been advised repeatedly by TCO that its ability to serve its full projected requirements and to provide a 10 percent colder than normal weather reserve anticipates the continuation of all customers projected supplemental supplies, which includes the supplemental SNG supplies. Mr. Lee testified that it is essential that Columbia maintain its Green Springs contract because it cannot look to its supplier or to any other firm source to replace those volumes. Mr. Lee acknowledged that there is an apparent gas surplus available in the interstate market; however, this surplus is attributed in part to the current economic conditions which have caused customer requirements to run far below the estimates. The underruns are expected to continue at least through the 1980-1981 winter period. Mr. Lee further testified that the current gas supply situation is a short-run phenomenon. Columbia must be prepared to meet the customer estimated peak day requirements and seasonal and annual requirements with firm gas supplies, even though those requirements are on occasion not needed due to economic or weather conditions. Columbia cannot rely upon occasional surpluses to satisfy these requirements. Mr. Lee stated that Green Springs SNG volumes are essential to satisfy the firm requirements of Columbia's customers (Company Ex. 10 at 9-13; Tr. IV, 109, 134, 135). The auditor confirmed the Company's conclusions (Tr. II, 66-68).

In Case No. 79-125-GA-SLF (Opinion and Order dated June 6, 1979), this Commission extensively reviewed Columbia's gas supplies and requirements and concluded that Columbia does not have access to a supply source which would reasonably be expected to replace the volumes that Green Springs produces. The Commission further dealt with the pricing of Green Springs SNG, finding that given the need to maintain the integrity and security of gas service to customers, the rolled-in price of SNG should be allowed to a level up to and including 19¢ per Mcf above TCO's price in terms of an allowable rolled-in cost additive. Nothing appears in the record of this case to suggest that the rolled-in price of SNG is approaching the 19¢ per Mcf ceiling set by the Commission in Case No. 79-125-GA-SLF. Further, evidence of record in this case fully supports the need to continue using Green Spring SNG as a supply source. Thus, the Commission finds the record in this case presents no evidence sufficient to warrant any change in the pricing of Green Springs SNG, nor to alter our conclusions that Green Springs SNG continues to be a necessary source of firm supply to Columbia. The Commission will continue to monitor Columbia's gas supply situation, its need to use Green Springs SNG, as well as the cost of this gas. In connection with this review, for the next GCR hearing, the Company is directed to present testimony regarding its current gas supply situation, customer requirements, and the availability of alternate firm sources of gas supply in the marketplace. The auditor is requested to report on the specific practices and policies employed by Columbia to assure an adequate gas supply at a reasonable price. In addition, the auditor should report on the current additional cost per Mcf of gas paid by Columbia's customers resulting from the roll-in of SNG costs.

## XI. <u>OTHER RELATED MATTERS</u>

### A. <u>Six Month Filing Option</u>

OCC witness Budetti recommended that the Commission afford Columbia the option of filing GCR rates on a semi-annual rather than the quarterly basis established by Chapter 4901:1-14, O.A.C. He testified that by going to a semi-annual basis, considerable effort can be avoided and Columbia would have more time to prepare its GCR filings if done on a less frequent basis (OCC Ex. 1 at 29-32). The Commission is of the opinion that nothing has been presented for our consideration which would warrant such a deviation from the quarterly reporting system contemplated in Chapter 4901:1-14, O.A.C.

B. Company Use and Unaccounted For Gas

In its post-hearing brief, OCC raised the propriety of including in the GCR calculations the cost of gas relating to unaccounted for gas and company use gas. This was not an issue in this proceeding, and the only reference to the subject is contained in the audit report discussed in Section II of this opinion and order. This Commission has previously found, however, that the costs associated with company use and accounted for gas are properly included in the GCR rate. River Gas Company, Case No. 80-210-GA-GCR (opinion and order dated January 21, 1981). Ohio Gas Company, Case No. 80-209-GA-GCR (opinion and order dated March 11, 1981).

C. Procedure in GCR Hearings

The OCC has raised certain questions regarding the presentation of Company evidence in GCR cases. OCC maintains that the burden of proof in these cases should be upon the Company to demonstrate that any cost passed through the UPGA clause was appropriate, accurate, and reasonable and that the Company should be required to prefile written direct testimony. Chapter 4901:1-14, O.A.C. contemplates that the focus of the GCR hearings is on the independent auditor's report. The utility is afforded the opportunity to submit direct testimony, as are any intervenors and the Staff; however, there is nothing in the UPGA rules requiring any party to submit prefiled testimony. The Commission, pursuant to Rule 4901:1-14-08, O.A.C., may require that the Company submit testimony, as we have done in Section X of this opinion and order, but absent a Commission directive, there is no obligation on the part of the Company to offer testimony. In addition, once a party has raised an issue, the burden of proof falls upon the party who raises that issue. Finally, once a utility has received the prefiled direct testimony of an intervenor or of the Staff, fairness dictates that the utility should have the opportunity to challenge the contents of that testimony by presenting rebuttal testimony at the hearing.

D. Recommendations Concerning the Next Annual Audit

OCC has made several suggestions of areas warranting the auditor's investigation for the next annual audit. Several of OCC's suggestions have been adopted and incorporated into other sections of this opinion and order. OCC also requested that the auditor identify specific results of the audit giving positive assurance that the Company's gas procurement policies and practices promote minimum prices for gas purchased consistent with an adequate supply of gas. The Commission finds this request to be reasonable and requests the auditor for the next GCR hearing to include such positive assurances where possible in the audit report presented to the Commission.

FINDINGS OF FACT:

1. This proceeding was initiated by the Commission in an entry dated May 7, 1980, to review the gas procurement practices and policies of Columbia Gas of Ohio, Inc. (Columbia), the operation of its purchased gas adjustment clause, and other related matters. Public hearing was held on September 15, 17, 18, and 19, 1980, at the offices of the Commission, Columbus, Ohio.

2. Notice of the hearing was published between fifteen and thirty days prior to the hearing in newspapers of general circulation throughout Columbia's service territory.

3. An audit of the Company covering the period June 1, 1979 to May 31, 1980, was performed by Arthur Andersen & Company. Results of the audit were filed with the Commission on August 15 and September 4, 1980.

4. The auditor found that Columbia has in place operating controls and procedures to collect the necessary data for proper calculation and reporting of the gas cost recovery (GCR) factor and to accurately apply the GCR factor to customers' bills.

5. Columbia is retaining $1,701,618 in supplier refunds in order to refund in a lump-sum payment pre-1980 refund amounts attributable to customers subject to incremental pricing (non-exempt customers.) This amount is an estimate and will be refunded when the exact amount becomes known. To the extent the lump-sum refund is greater or less than the estimate, an adjustment to the GCR rates of exempt customers will be necessary.

6. The auditor reported that Columbia's method of reporting and computing the components relating to incremental pricing is in compliance with the requisites contained in the Commission's entry of December 28, 1979, in Case No. 79-1171-GA-COI.

7. The auditor found that the Company's procedures for eliminating gas costs from base rates were reasonable.

8. The auditor reported that Columbia's procurement policies and contracts are consistent with the objective of obtaining an adequate supply of gas at minimum prices.

9. Columbia included in its March 4, 1980 to June 4, 1980 effective GCR quarter a transitional adjustment of $24,867,888 to account for unbilled volumes of gas as of the December, 1979 cutover date from the previous PGA mechanism to the new GCR mechanism. The transitional adjustment amount consists of two portions, a base chip portion of $8,199,476 attributable to normal cyclical unbilled volumes and a seasonal portion of $16,668,412 attributable to variations in the heating load.

10. Columbia has contracted for storage with Michigan Consolidated Gas Company and Crawford Storage Service of Columbia Gas Transmission Company. The rates paid for storage service and related transportation services are approved by the Federal Energy Regulatory Commission and are included in Columbia's GCR rates.

11. Incorporated into the commodity rates of TCO is a Gas Research Institute surcharge which Columbia must pay in order to receive volumes of gas from TCO. The GRI surcharge is included in Columbia's GCR rates as a cost of its includable gas supplies.

12. Columbia overstated the maximum surcharge absorption capability of its non-exempt industrial customers by calculating the tax effect on the alternative fuel price using a gross receipts type allocation of tax instead of using a sales tax methodology.

13. In computing incremental pricing surcharges, Columbia utilizes the alternative fuel price as published by the Energy Information Administration.

14. On May 2, 1980, Columbia filed its third quarterly GCR filing to become effective June 4, 1980, computing its expected gas cost recovery rate utilizing supplier rates in effect at the date of the GCR filing. On May 23, 1980, TCO filed revised rates with the FERC. FERC approved the TCO rate reduction on June 20, 1980. Columbia did not revise its May 2, 1980 filing to reflect the proposed TCO rate reduction filed subsequent to the GCR filing but prior to the June 4, 1980 effective date.

15. When Columbia converted to the GCR mechanism, it applied for and was granted an exemption from the requirement that it use a weighted average GCR rate in its billing procedure when the GCR rate changes during a billing cycle. OCC recommended that the Commission reconsider this exemption.

16. The FERC approved rates under which Columbia purchases gas from TCO include the rolled-in costs for Cove Point LNG. At the date of the hearing, the Cove Point facility was supplying reduced quantities of gas. Columbia cannot buy gas from TCO without paying the rates established by FERC.

17. Columbia purchases synthetic natural gas (SNG) from Columbia LNG. The SNG supply comprises 6 to 7 percent of Columbia's current firm gas supplies. Green Springs SNG is essential to enable Columbia to satisfy the firm requirements of its customers.

CONCLUSIONS OF LAW:

1. Columbia Gas of Ohio, Inc. is a natural gas company and a gas company within the meaning of Section 4905.03(A)(5) and (6), Revised Code, and as such is a public utility subject to the ongoing supervision and jurisdiction of the Commission.

2. Section 4905.302, Revised Code, and Rule 4901:1-14-08, O.A.C., require the Commission to review each gas or natural gas utility's purchased gas adjustment clause at a hearing to be conducted annually, unless otherwise ordered by the Commission.

3. Columbia has complied with the notice provisions of Rule 4901:1-14-08(B), O.A.C.

4. The audit conducted by Arthur Andersen & Company was performed in compliance with Section 4905.302, Revised Code, Chapter 4901:1-14, O.A.C., and the Commission's entry of May 7, 1980.

5. Regarding the $1,701,618 retained supplier refunds estimated as attributable to non-exempt customers, Columbia should make the appropriate lump-sum payments to non-exempt customers and adjust the GCR rates of exempt customers as set forth in Section II(A) of this opinion and order.

6. The reconciliation adjustment relating to the base chip portion of unbilled volumes of gas at the date of transition to the GCR mechanism is not reasonable and should not be allowed. Columbia should make a reconciliation adjustment of $8,199,476 in favor of its customers in the next quarterly GCR filing.

7. The reconciliation adjustment relating to the seasonal portion of the unbilled volumes of gas at the date of transition to the GCR mechanism is reasonable and should be allowed.

8. Columbia correctly accounted for Crawford Storage Service charges, Michigan Consolidated Gas Company storage charges, and related transportation charges in its GCR calculations.

9. The Gas Research Institute surcharges are a cost to Columbia of obtaining the gas it sells to its customers and are includable in the GCR rates.

10. When adjusting for taxes on the regional alternative fuel price in determining the maximum surcharge absorption capability of industrial facilities, Columbia should utilize a sales tax methodology.

11. The appropriate alternative fuel price to use in computing incremental pricing surcharges is the alternative fuel price as published by the Energy Information Administration, without adjustment.

12. Unless ordered otherwise by the Commission, a gas utility should not be required to update the quarterly GCR filings calculated and submitted in accordance with Chapter 4901:1-14, O.A.C.

13. No evidence has been presented in this proceeding to warrant a change to a weighted average GCR billing procedure. The previously granted exemption should remain in full force and effect.

14. Columbia's GCR rates reflecting the cost of gas purchased from TCO under rates approved by FERC should not be adjusted to account for reduced Cove Point LNG volumes. The propriety of the various components of TCO's commodity rates, including costs of Cove Point LNG, are appropriately determined in proceedings at the FERC.

15. The costs associated with Green Springs SNG are a part of Columbia's includable gas supplies pursuant to Rule 4901:1-14-01(M) and (N), O.A.C.; no evidence was presented in this proceeding to warrant exclusion of a portion of the cost of this includable supply.

<u>ORDER</u>:

It is, therefore,

ORDERED, That Columbia shall refund the non-exempt portion of the $1,701,618 retained supplier refunds in a lump-sum payment and credit the GCR rates of the exempt customers as set forth in Section II(A) of this opinion and order. It is, further,

ORDERED, That Columbia shall make a reconciliation adjustment of $8,199,476 in favor of its customers in the next quarterly GCR filing to account for the prior unauthorized recovery of the base chip portion of unbilled volumes of gas existing at the date of transition to the GCR mechanism. It is, further,

ORDERED, That Columbia shall utilize the sales tax methodology when adjusting for taxes on the regional alternative fuel price in determining the maximum surcharge absorption capability of industrial facilities. It is, further, ORDERED, That the auditor selected for the next annual GCR hearing review and report on the matters set forth in Sections II(A), III, X, and XI of this opinion and order. It is, further,

ORDERED, That a copy of this opinion and order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Chairman

Commissioners

While I agree in principle with with the gas storage costs as part of the gas cost I continue to be troubled by the reading of the rules.

AKR/lsb

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A True Copy

David M. Polk
Secretary