BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Investigation Into the Gas Purchasing Practices and Policies of Columbia Gas of Ohio, Inc.	Case No. 83-135-GA-COI
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. 84-6-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, James L. Fullin, Stephen B. Seiple and Roger C. Post, 200 Civic Center Drive, Columbus, Ohio 43215, on behalf of Columbia Gas of Ohio, Inc.

Mr. Anthony J. Celebrezze, Jr., Attorney General of the state of Ohio, by Ms. Martha J. Cooper and Ms. Stephanie D. Pestello, Assistant Attorneys General, 180 East Broad Street, Columbus, Ohio 43215, on behalf of the Staff of the Public Utilities Commission of Ohio.

Mr. William A. Spratley, Consumers' Counsel, by Ms. Margaret Ann Samuels, Mr. Paul A. Centolella, and Ms. Anne L. Hammerstein, Associate Consumers' Counsel, 137 East State Street, Columbus, Ohio 43215, on behalf of the residential consumers of Columbia Gas of Ohio, Inc.

Messrs. Emens, Hurd, Kegler & Ritter Co., L.P.A., by Mr. Timothy J. Battaglia, 250 East Broad Street, Columbus, Ohio 43215, on behalf of the Ohio Oil and Gas Association, the Metropolitan Educational Council, and the Columbus Board of Education.

Messrs. Vorys, Sater, Seymour & Pease, by Mr. Sheldon A. Taft, 52 East Gay Street, P.O. Box 1008, Columbus, Ohio 43215, on behalf of the Ohio Manufacturers' Association.

Messrs. Vorys, Sater, Seymour & Pease, by Mr. M. Howard Petricoff, 52 East Gay Street, P.O. Box 1008, Columbus, Ohio 43215, on behalf of the Ohio Department of Development, Division of Energy.

Messrs. Bricker & Eckler, by Ms. Sally W. Bloomfield, 100 East Broad Street Columbus, Ohio 43215, on behalf of Yankee Resources, Inc.

Mr. Glenn S. Krassen, 20600 Chagrin Boulevard, 600 Towers East, Cleveland, Ohio 44122, on behalf of Park-Ohio Energy, Inc.

OPINION

I. INTRODUCTION

Pursuant to Section 4905.302, Revised Code, this Commission was directed to promulgate a purchased gas adjustment rule that would establish a uniform purchased gas adjustment clause to be included in the schedules of gas or natural gas companies subject to the jurisdiction of this Commission. As a result, the

Commission established Chapter 4901:1-14, Ohio Administrative Code (O.A.C.), which is designed to separate the cost of gas from all other costs incurred by a gas or natural gas company subject to the jurisdiction of this Commission, and to provide for each company's recovery of these costs. Section 4905.302, Revised Code, further directs that the Commission establish investigative procedures and proceedings for the regulation of this clause. Consequently, Chapter 4901:1-14, O.A.C., also establishes such proceedings and procedures, including periodic reports, audits and hearings to examine the arithmetic and accounting accuracy of the gas costs reflected in the company's gas cost recovery (GCR) rates, and to review each company's production and purchasing policies and their effect upon these rates.

Columbia Gas of Ohio, Inc. (Columbia, COH or the company) is a gas or natural gas company as defined by Section 4905.03(A)(5), (6), Revised Code, and a public utility as set forth in Section 4905.02, Revised Code. Columbia is, therefore, also a gas company within the meaning of Section 4905.302(C), Revised Code, and Chapter 4901:1-14, O.A.C. Columbia is a distribution subsidiary of the Columbia Gas System and serves approximately one million customers in approximately 360 communities widely scattered throughout the state of Ohio. The company has operations in 56 counties in Ohio.

Rule 4901:1-14-07, O.A.C., and Section 4905.302, Revised Code, require that the Commission shall conduct, or cause to be conducted, periodic financial and management/performance audits of each gas or natural gas company. On August 15, 1984, Columbia, pursuant to Rule 4901:1-14-07(C), O.A.C., and in accordance with the Commission entry dated April 10, 1984, submitted a certificate of accountability to this Commission. The certificate was attested to by Arthur Andersen & Co., a qualified independent auditing firm (Comm. Ord. Ex. 2). Pursuant to Rule 4901:1-14-07(D), O.A.C., and in accordance with Commission entry dated April 10, 1984, the Commission engaged the accounting firm of Deloitte, Haskins & Sells (DH&S or the auditor) to conduct the management/performance audit of Columbia's gas production and purchasing practices. The audit covered the period from June 1, 1983 to May 31, 1984, and was filed with the Commission on August 17, 1984 (Comm. Ord. Ex. 1).

Section 4905.302(C), Revised Code, and Rule 4901:1-14-08(B), O.A.C., require the Commission to hold a public hearing at least 30 days after the filing of each required audit report. Rule 4901:1-14-08(B), O.A.C., specifies that notice of the hearing be published in a newspaper(s) of general circulation throughout the company's service area at least fifteen and not more than thirty days prior to the scheduled date of hearing. Notice was properly made in accordance with the rule (Columbia Ex. 1). The public hearing in this matter was commenced on September 18, 1984, at the offices of the Commission and was ultimately concluded on April 5, 1985.

Also consolidated with the GCR proceeding is Case No. 83-135-GA-COI, which is the Commission-initiated audit of the gas purchasing practices and policies of Columbia. That audit was conducted by Touche Ross & Co. (Touche-Ross or T/R) and that report was filed on November 14, 1983. That management audit report contained twenty-six specific prospective recommendations for the improvement of Columbia's gas purchasing practices. In response to the Touche-Ross audit, Columbia filed an implementation plan containing the company's proposal for carrying out the recommendations contained in the Touche-Ross audit. The implementation plan was filed by Columbia on April 2, 1984.

Subsequently, all parties in Case No. 83-135-GA-COI, and, in addition, the public advisory committee (PAC), attended a prehearing conference held on April 16, 1984. At that conference all parties made suggestions for changes or additions to be made to Columbia's implementation plan. As a result of that settlement conference it was agreed that Columbia would file a revised implementation plan incorporating all suggestions which had been agreed upon. This revised implementation plan incorporating the changes was filed on May 1, 1984 (Columbia Ex. 4). Objections to the revised plan were filed by the Office of Consumers' Counsel on May 7, 1984. The staff and other parties also filed comments on the revised plan. It was also agreed by the parties at the settlement conference that the management/performance auditor for the gas cost recovery proceeding (Case No. 84-6-GA-GCR) would evaluate the reasonableness of Columbia's efforts to execute the revised implementation plan for those recommendations agreed upon, and that the management/performance auditor would assess the reasonableness of Columbia's plan to meet the objectives of the Touche-Ross audit for only those remaining recommendations on which the parties did not reach an acceptable agreement (Tr. of Prehearing Conference at 6). Thus, by Commission entry of April 10, 1984, DH&S was specifically directed to test the reasonableness of the company's implementation plan. By entry of September 11, 1984, the gas cost recovery case and the management audit proceeding were consolidated.

Also a part of this proceeding at one time was Case No. 84-1129-GA-UNC, which was filed by Columbia on September 28, 1984. That proceeding was initiated by Columbia wherein the company requested that the Commission determine the appropriate operating procedure to be followed with respect to a third exchange station (the Maumee Gate) with The East Ohio Gas Company. By entry of October 23, 1984, the exchange station proceeding was consolidated with the GCR case and the management audit proceeding. Subsequently, however, all parties to the proceeding entered into a stipulation and recommendation concerning the exchange gate issue and requested an expedited Commission decision on the matter. As a result, the Commission issued an opinion and order in Case No. 84-1129-GA-UNC on March 12, 1985. The order adopted the stipulation and recommendation of the parties and resolved all issues in that proceeding. Consequently, that case has been concluded and no matters from that proceeding remain for Commission determination.

During the course of the hearing in this proceeding, witnesses were presented by Columbia, the Office of Consumers' Counsel (OCC), the Ohio Manufacturers' Association (OMA) and the Ohio Department of Development, Division of Energy (ODOD). The division of energy subsequently withdrew the bulk of its testimony regarding Columbia's forecasting methodology. Mr. William Eyres and Mr. Harry Watson testified as representatives for DH&S. After the hearing was concluded on April 5, 1985, the parties were given the opportunity to file post-hearing briefs on May 3, 1985 and reply briefs on May 17, 1985. The matter is now before the Commission for final order.

II. FINANCIAL AUDIT

Pursuant to the Commission entry journalized April 10, 1984, and Rule 4901:1-14-07(C), O.A.C., Columbia is required to submit to this Commission a certificate of accountability attested to by an independent auditor. By a certificate of accountability docketed August 15, 1984, Arthur Anderson & Co. found that:

> In our opinion, Columbia Gas of Ohio, Inc. has fairly determined the GCR rates for the three-month periods ended March 6, 1984, June 5, 1984, September 4, 1984 and December 4, 1984, in accordance with the financial procedural aspects of the uniform purchase gas adjustment as set forth in Chapter 4901:1-14 and related appendices of the

Administrative Code and properly applied the GCR rates to customer bills.

Arthur Anderson & Co. did not identify any matters arising from its examination which this Commission need investigate (Comm. Ord. Ex. 2). The financial audit was stipulated into evidence by all parties without the need for cross-examination. The Commission finds that the financial auditor has performed the financial audit in accordance with the Commission's rules and directives. The Commission further finds that the company has, in all material aspects, complied with the rules for calculating the GCR rates under review and that the company's GCR rates were properly applied to customer bills.

III. COMMISSION DIRECTIVES

Forecasting

In Columbia's last GCR proceeding, Case No. 83-15-GA-GCR, Opinion and Order, May 8, 1984, the Commission directed the company to report the results of its forecasting methodology review. This directive was a result of the parties' expressed concerns about Columbia's more recent forecasts being less accurate than they had historically been. Columbia was also directed to provide the Department of Development and the Commission with the forecasting model being tested by Columbia, as well as the results of such tests. Columbia provided the required information to the Commission and ODOD on May 31, 1984. Columbia witness J.R. Lee indicated in his testimony in this proceeding that Columbia has added a residential, commercial and industrial econometric model for use in projecting customer gas requirements as suggested in Touche-Ross recommendation number 8 (Columbia Ex. 3, at 11; Columbia Ex. 4, at 21). DH&S reviewed Columbia's progress on this recommendation and found that "COH has demonstrated via the file documentation, their commitment to improve forecast accuracy for all customer classes" (Comm. Ord. Ex. 1, at 53). DH&S did, however, make several suggestions on the subject of improving forecast accuracy. Columbia has accepted these suggestions and will consider them as the company develops its modeling capability (Columbia Ex. 3, at 11-12).

Special Marketing Activities (Self-Help)

The Commission Entry of April 10, 1984, directed DH&S to review Columbia's participation in any self-help special purchase or industrial sales program which has enhanced the marketability of natural gas in Columbia's service area. In response to this directive, DH&S reported on the historical background of Columbia's self-help program and investigated the program's current operation. The auditor concluded that Columbia's pricing policy, coupled with the customer's acquisition of the gas before it enters the Columbia system, allows the service to be clearly compensatory. Thus, with regard to the self-help program, DH&S found that development of the transportation gas market has proven to be desirable and beneficial to both Columbia and its customers (Comm. Ord. Ex. 1, at 81). Concerning other types of transportation and special marketing programs, DH&S found that "Columbia is aggressively pursuing any transportation arrangement that will avoid loss of load to alternate fuel." (Comm. Ord. Ex. 1, at 82).

Synthetic Natural Gas

DH&S was also specifically directed to evaluate Columbia's decision-making process as it relates to the extension of the Columbia LNG Green Springs contract. Columbia LNG, one of the subsidiaries of the Columbia Gas System, has provided synthetic natural gas (SNG) to Columbia pursuant to a ten-year contract entered into on July 26, 1973. The initial contract expired on March 31, 1984. Columbia entered into an amended agreement on

February 1, 1984, under which Columbia agreed to continue purchasing SNG from Columbia LNG during the period of April 1, 1984 through September 30, 1985. Under the terms of the new contract the delivered price of the SNG is at least five cents per Dth less than Columbia Gas Transmission Corporation's (TCO) effective commodity rate (Comm. Ord. Ex. 1, at 76; OCC Ex. 1, at 53). Columbia Exhibit 15 demonstrates that the current SNG rate is 27¢ less than TCO's commodity rate.

After review of the entire matter, DH&S found that it was desirable to keep the SNG plant in operation, if economically possible to do so (Comm. Ord. Ex. 1, at 75; Tr. II, 123). It was the auditor's conclusion that "the negotiations between the parties resulted in a price below that of the commodity cost of natural gas delivered by TCO and, accordingly it appears that the contract benefits Columbia Gas of Ohio's customers." (Comm. Ord. Ex. 1, at 76).

OCC expressed concern that the renegotiations may not be in Columbia's customers' best interests because of the possibility that the commodity rate being paid to TCO might be subject to refund in the Federal Energy Regulatory Commission (FERC) Docket No. TA-1-21-001 _et al._, the so-called "fraud and abuse" proceeding. However, the FERC has recently approved a stipulation and agreement which was filed in that proceeding which makes OCC's concern as to this audit period moot.[1] The stipulation and agreement which was approved by the FERC results in a prospective reduction in TCO's commodity rates rather than providing for refunds. This prospective reduction in TCO's commodity rates will also reduce the price Columbia actually pays for SNG, since the price of SNG under the contract will be at least five cents less than the TCO commodity rate. Consequently, the Commission concludes that Columbia has demonstrated that the renegotiation of the SNG contract is beneficial to the company's customers.

IV. PERFORMANCE AUDIT

Prior to detailing specific findings or recommendations, DH&S set forth an overview of Columbia and some overall conclusions concerning the company. The auditor explained that historically Columbia has been a non-integrated gas distribution company serving some 700 communities tied together by an affiliated interstate transmission company. Columbia has not, until recently, contracted for its own gas supply, nor did it have a transmission system. This horizontal basis of operation is changing, however, because Columbia is actively seeking to procure Ohio gas production, as well as gas from outside the state. Columbia is also evaluating joint venture transmission lines to communities it serves. The auditor indicates that this movement towards a more vertically integrated operation will help relieve some of Columbia's dependency on TCO as a major or sole source supplier of gas. However, these alternative sources will not mean that all communities will be able to replace TCO as a supplier and become self-sufficient (Comm. Ord. Ex. 1, at 56).

DH&S found that "insofar as these processes and activities do not result in uneconomic duplication of service for COH vis-a-vis TCO, it is a healthy development for the company and its customers." (Comm. Ord. Ex. 1, at 6). In general, the auditor concluded that Columbia is addressing the changes needed in planning and procurement given the changing environment, and is

1 The Commission finds it proper to take administrative notice of the stipulation and agreement which was filed in that proceeding and formally approved by the FERC on June 25, 1985.

making good progress in the majority of the areas examined. The following specific recommendations were made by DH&S:

A. Planning for Gas Requirements

1. Recommend COH review the various forecasting formulas developed for the model to make sure such are formulated to fit the operating and marketing environment of COH.

2. Recommend training workshops be established in-house as well as sending appropriate employees to not only seminars currently being attended, but "hands-on" sessions. Based on discussions with Marketing, Supply Planning, and Employee Relations, there appears to be a need for improved specialized training for this redefined operating environment that impacts both Marketing and Supply Planning. This goes beyond the general training being conducted as well as the provisions being made for model implementation training.

B. Organization

1. Recommend that COH give consideration to reassigning the Services Section, given the expanding responsibilities of Supply Planning.

2. Recommend that COH give consideration to establishing a Planning function for COH due to the broad implications of the potential results from the Booz-Allen Strategic Business study being conducted.

3. Recommend that the Project Engineer be reassigned to the Manager - Long Range Planning, given his credentials in computer science and econometric modeling.

4. Recommend establishing a Supply Planning Research section with responsibilities to monitor gas supply market prices and conditions not only in Ohio, but at the interstate level as well.

5. Recommend establishing a Supply Planning Research position with responsibilities, in part, to monitor and prepare gas supply price studies for Ohio activity and outside the state pricing activity.

C. Source Selection

1. While not a recommendation, we believe that COH is making a concerted effort to lower their delivered cost of gas to COH customers when and where possible.

D. Negotiation and Contracting

1. Recommend that COH continue to pursue all available cost-effective supply sources, regardless of location.

(Comm. Ord. Ex. 1, at 6-8).

DH&S indicated that the purpose of its audit concerning Columbia's purchasing practices and policies "was to review management practices and procedures to determine whether management has, indeed, redefined the necessary internal method to assure that the procured supply mix is the best strategy being pursued over the long-term..." (Comm. Ord. Ex. 1, p. 18).

With regard to planning for gas requirements, the auditor noted that historically, Columbia has planned for gas requirements by preparing The Blue Book, which consisted of five years of actual gas demand and a ten-year forecast of gas demand. The audit notes that Columbia has taken measures to improve load forecasting and to respond to T/R recommendation number 8 by developing a more sophisticated econometric model. Columbia has retained Jensen & Associates to develop a model that will incorporate data appropriate for Ohio. The auditor found that Columbia has instituted fundamental changes that will improve forecasting results. The auditor made two recommendations with regard to forecasting, both of which Columbia has agreed to implement (Columbia Ex. 3, at 6). OCC and the staff both stress the importance of the auditor's recommendation related to Columbia's need to establish training programs for the market and supply planning departments in the area of statistics, forecasting techniques, computer modeling and market research (OCC Brief at 35-36, Staff reply brief, at 7). While Columbia has indicated its intent to implement this auditor recommendation, we believe the company should also specifically address this matter in its testimony for the next GCR proceeding. Furthermore, the management/performance auditor shall also review the company's progress in implementing an appropriate training program.

The auditor reviewed the supply planning organization in detail and also reviewed other department organizations to understand the interactive role with supply planning. The auditor concluded that personnel assignments and execution of responsibilities are, generally, being handled properly. DH&S indicated that Columbia seems to have improved its ability to effectively monitor gas supply market prices and conditions via the reorganized marketing and supply planning. The auditor offered four recommendations regarding the organization of supply planning and other departments (Comm. Ord. Ex. 1, at 22-24). Columbia has indicated that these recommendations are being considered or are being implemented (Columbia Ex. 3, at 7).

DH&S set forth the following four primary objectives with regard to its discussion of Columbia's source selection:

Identify the company's supply sources which represent the company's current strategy.

Evaluate whether current supply sources promote adequate supply at least cost.

Identify other supply source opportunities available to the company which would/could promote least cost consistent with adequate supply.

Identify any independent cost/benefit studies performed by the company detailing any alternate source strategy.

DH&S also set forth Columbia's current supply strategy as detailed in the company's 1984 Blue Book. The supply source forecast is as follows:

	Forecast Supply Year (%)			
Supply Source	1984	1986	1988	1990
1. Columbia LNG (SNG) Base Loaded	7.0	-0-	-0-	-0-
2. Local Ohio Production	2.0	4.5	5.8	7.4
3. Columbia Gas Transmission (All Remaining Requirement)	88.5	92.1	94.2	92.6
4. Storage Withdrawal	1.0	-0-	-0-	-0-
5. Other (Phase II)	1.5	3.4	-0-	-0-

(Comm. Ord. Ex. 1, at 25).

The auditor indicated that the pipelines which supply TCO have contractual obligations that are not going to be resolved in the short-to near-term. Thus, the auditor stated that Columbia's only practical alternative for the short-term is to contract for cost-effective Ohio production. DH&S stated that Columbia has continually investigated purchases of gas from other regions of the country but transportation and FERC authorization have each been obstacles to alternative purchases (Comm. Ord. Ex. 1, at 27). Of course this would not be the case if Columbia had, in the past, attempted to diversify its supply by obtaining access to other pipelines which serve Ohio.

Regarding any independent cost/benefit studies performed, DH&S reported that Columbia had previously retained Booz-Allen & Hamilton, Inc. (Booz-Allen) to prepare a feasibility study to determine whether Columbia could increase purchases of Ohio gas as an alternate source strategy. The Booz-Allen study has been reviewed in great detail in a prior Columbia GCR proceeding, Case No. 82-83-GA-GCR. Basically, the Booz-Allen study found that it was not economically or operationally feasible for Columbia to substantially increase its purchases of Ohio produced gas. However, DH&S concluded that, not withstanding the pessimistic findings of Booz-Allen regarding Ohio purchases, Columbia has committed itself to pursuing alternate supply sources that are cost-effective (Comm. Ord. Ex. 1, at 27).

The auditor's overall conclusion regarding Columbia's supply source selection is that Columbia is making a concerted effort to lower the delivered cost of gas to its customers when and where possible within the limitation of its current system. The auditor's opinion was based on Columbia's commitment to pursuing Ohio purchases, purchases under the Phase II program, and purchases from alternatives to TCO's delivery system such as the Eastern Supply Line to Columbus (Comm. Ord. Ex. 1, at 31). The Phase II program is a transportation program wherein TCO will transport gas purchased by Columbia for use as a source of Columbia's system supply. Absent this special program, TCO and other interstate pipelines would normally refuse to transport gas which is obtained from other interstate pipelines which would replace the pipelines' own system sales.

The auditor performed a review of Columbia's negotiation process and the resulting contracts. These contracts essentially cover local Ohio production or qualified gas supplies under TCO's Phase II program. The auditor reviewed the applicable TCO tariff, all local gas purchase contracts, and the Green Springs contract, as well as the transportation contracts signed by Columbia. DH&S noted that Columbia has entered into 75 gas purchase agreements for Ohio production in the past two years. The company had executed 24 contracts in 1984 at the time of the audit, and was negotiating 10 additional contracts. Currently, Columbia has projected that Ohio purchases will increase annually from 5,361/MMcf in 1984, to 12,429/MMcf in 1988 (Comm. Ord. Ex. 1, at 32-33). Local Ohio production accounted for approximately two percent of Columbia's total purchases for 1984.

The auditor reported that various physical and/or operational factors affect Columbia's ability to acquire and/or transport gas to its customers. Some of these constraints include market requirements, location of the source of gas, pressure, prior commitments to market, and gas quality (Comm. Ord. Ex. 1, at 37).

DH&S explored Columbia's efforts concerning load control and supply management, which includes the company's involvement in conservation measures. The audit report states that "we remain convinced that COH is supporting conservation for its customers in spite of COH's disagreement on the need for special programs introduced into previous proceedings" (Comm. Ord. Ex. 1, at 38). The auditor reported that during recent years, Columbia has been devising conservation programs that will benefit its residential, commercial and industrial customers (Comm. Ord. Ex. 1, at 38).

DH&S investigated Columbia's reporting and control of gas receipts and deliveries and found the procedures to be adequate. The auditor made no recommendations concerning this area.

Finally, DH&S summarized Columbia's activities with respect to improving the company's future procurement strategy. The audit report noted that the summary actually represents a compilation of the many activities discussed in the management audit report and the discussion of the twenty-six points contained in Columbia's revised implementation plan. Columbia's activities for future procurement strategy as set forth by DH&S include:

> Pursuit of an integrated strategic business plan being developed by Booz-Allen that, more than likely, will include strategic issues beyond gas procurement.
>
> Commitment to improve forecasting accuracy by retaining Jensen & Associates to develop an econometric model.
>
> Recognition by management to strengthen specialized or technical training.
>
> Commitment to vertically integrating its operation which will lessen dependence upon TCO as a sole source supplier.
>
> Commitment to exploring gas procurement options which will lead, very likely, to a diversified supply strategy.
>
> Commitment to implementing the Revised "Plan" in response to Touche-Ross Audit Report.

(Comm. Ord. Ex. 1, at 43).

In spite of the DH&S findings, OCC asserts that Columbia's purchasing practices and policies during the audit period under review were unreasonable and imprudent. Specifically, OCC argues that Columbia excessively relied on the Columbia Gas System (CGS), specifically Columbia Gas Transmission Company (TCO), for its gas supply requirements rather than diligently pursuing alternative ways to obtain lower-cost gas supplies from non-affiliated sources. OCC contends that as a result of these deficient practices and policies, Columbia's customers have incurred additional, unnecessary costs during the audit period of

June 1, 1983 through May 31, 1984. OCC witness Donkin testified that Columbia should have been seeking to increase its access to larger quantities of lower-cost supplies from other sources, in addition to making efforts to access limited quantities of Ohio produced gas. Mr. Donkin stated:

> With regard to the gas costs actually incurred by COH in the GCR period, they were unreasonably high. COH should have and could have purchased lower-cost supplies from other sources to displace higher-cost supplies actually purchased from TCO. I demonstrate that minimum reasonable estimates of the amounts by which COH's gas costs could have been reduced range between $11.5 million and $13.4 million, and I recommend that the company's recoverable gas costs for the GCR period be reduced by amounts within that range.

(OCC Ex. 1, at 6-7).

In Mr. Donkin's opinion, "Columbia's actual gas costs during the GCR period were unreasonably high because Columbia purchased too much gas from TCO and not enough lower-cost gas from other suppliers when such gas was generally available to independent and prudent large retail gas distributors in the U.S." (OCC Ex. 1, at 73). Mr. Donkin's testimony indicates that Columbia actually purchased 246.6 million MMBtu of gas from TCO during the audit period, at a commodity cost of $1,011.6 million, or about $4.10 per MMBtu. Given that figure for gas costs incurred from purchases from TCO, Mr. Donkin proceeds to estimate the gas cost savings that Columbia could have achieved had Columbia purchased less gas from TCO and instead purchased some of the gas from other, lower-cost sources. Mr. Donkin prepared two alternative estimates of the potential savings as set forth below.

The first estimate is based upon the 1983 performance of the Washington Gas Light Company (WGL). The estimate is based upon data contained in Washington Gas Light's 1983 Annual Report, wherein it was reported that in 1983 WGL saved $13.4 million by purchasing 25.7 million MMBtu, or 22 percent of its requirements, from nontraditional sources. Mr. Donkin states that if Columbia had replaced 22 percent of its TCO purchases (54.2 MMBtu) for the audit period with gas from other sources, Columbia could also have been able to save $13.4 million by making the purchases from other sources at $3.86 per MMBtu. Or, if Columbia had purchased 25.7 million MMBtu (the same volumes WGL purchased from alternative sources), Columbia could still realize a savings of $13.4 million by making the purchases at $3.60 per MMBtu. Essentially, what Mr. Donkin has done is to start with a $13.4 million savings and juggled the price and quantity figures to arrive at the same end savings figure.

Mr. Donkin states that this $13.4 million savings is reasonable because "it is reasonable to assume that COH could purchase the same quantity of nontraditional supplies as WGL, i.e. 25.7 million MMBtu (or 22 percent) and that these purchases would also generate annual savings of 13.4 million." (OCC Ex. 2, at 75). The average gas costs, as calculated by Mr. Donkin, to result in the $13.4 million savings would range between $3.60 and $3.86 per MMBtu. Mr. Donkin also states that "[n]ontraditional gas supplies were generally available to gas purchasers in the U.S. at prices at or below these levels, including transportation costs, during the GCR period (OCC Ex. 1, at 75-76). Consequently, on the basis of WGL's example, Mr. Donkin recommends that the Commission order a reconciliation adjustment of $13.4 million to reduce Columbia's gas costs during the audit period.

Mr. Donkin's second estimate of the savings Columbia could have achieved during the audit period involves three components, totalling $11.5 million. The first component involves 25,782,679 Dth of synthetic natural gas (SNG) that Columbia contracted to purchase from Columbia LNG and which was transported by TCO. In its post-hearing brief, OCC asserts that Columbia participated in the formulation of a discriminatory, anti-competitive transportation policy which resulted in giving undue preference to the transportation of the SNG. In Columbia's case, the transportation of SNG by TCO displaced up to seven percent of TCO's sales. OCC argues that rather than participating in the discriminatory transportation of SNG, Columbia should have purchased like volumes from alternative sources and arranged to have these alternative volumes transported by TCO. OCC witness Donkin calculated a total savings of $9.0 million for the audit period from these alternative purchases. This figure was arrived at by multiplying Columbia's annual allotment of SNG gas volumes (25,782,679 Dth) by an estimated unit cost savings of 35¢ per MMBtu (OCC Ex. 1, at 76-77). The 35¢ per MMBtu differential is Mr. Donkin's estimate of a reasonable delivered cost of natural gas into Columbia's system from Ohio sources (Tr. IX at 50-51). Mr. Donkin's testimony indicates that he made no specific calculation to arrive at this figure and there were no work papers to support the number (Tr. IX 32, 50-51).

For the second segment, OCC contends that Columbia could have reduced its actual gas costs in the audit period by approximately $2.1 million if the company had made full use of the capacity available at the Parma and Lime City exchange stations. OCC submits that an additional 6,078.6 MMcf of gas was available for additional system supply purchases, but for Columbia's preferential treatment of some customers. Specifically, OCC argues that Columbia gave preferential treatment to interruptible best efforts self-help customers by accepting supplies for these customers rather than for Columbia's own system supply. It is OCC's contention that the preference occurred in two areas: 1) Columbia's failure to attempt to use the full best efforts capability of the Lime City and Parma exchange gates and 2) the preference given to best efforts deliveries directly into Columbia markets. Thus, OCC asserts that if this preferential treatment were eliminated and Columbia transported more volumes at a reduced price for its system supply customers, a savings would result. OCC has calculated the estimated savings at $2.1 million by multiplying the estimated additional volumes available (6078.6 MMcf) by an assumed unit cost savings of 35¢ per MMBtu (OCC Ex. 1, at 77-78).

The final segment of OCC's second alternative proposed reconciliation adjustment is based upon the additional capacity of 1,106.3 MMcf now being made available at two National Gas & Oil exchange stations. OCC assumes that these additional volumes of gas could and should have been available during the GCR period. OCC again assumes, for the purposes of calculating an estimated savings, that Columbia could have purchased these volumes at an estimated savings of 35¢ per MMBtu. The estimate of savings for this segment is $0.4 million (OCC Ex. 1, at 78-79).

OCC's second estimate of the gas costs savings that Columbia could have achieved in the GCR period thus amounts to a total of the three segments, or $11.5 million. A summary of the second procedure for estimating the potential gas costs savings is set forth below.

Description	Annual MMcf	Estimated Savings	Savings in $ Million
Non-SNG Supplies transported by TCO	25,792.7	35¢ per MMBtu	$ 9.0
Other Supplies received via:			

a. East Ohio Exchange Stations	6,078.6	35¢ per MMBtu	$	2.1
b. National Oil & Gas	1,106.3	35¢ per MMBtu	$	0.4
TOTAL	32,967.6		$	11.5

OCC witness Donkin testified that these estimates of the gas costs that Columbia could have saved for the GCR period are reasonable. He believes the figures under either of the two scenarios represent sound estimates of the volumes that Columbia actually could have purchased and reasonably approximate the unit cost savings associated with those replacement supplies. Consequently, OCC witness Donkin recommends that Columbia's recoverable gas costs for the GCR period be reduced by an amount ranging between $11.5 million, the amount calculated under the second scenario, and $13.4 million, the amount calculated under the first scenario (OCC Ex. 1, at 80).

In addition to the cost-savings suggestions offered by OCC witness Donkin in direct testimony, OCC, in its brief, details other alternatives by which Columbia could potentially have reduced its gas costs for the GCR period. OCC contends that prudent management would have begun by at least 1981 or 1982 to procure alternate supplies. Consequently, all of OCC's proposals for alternative supplies assume that the necessary connections were actually in place during the audit period to enable Columbia to make the suggested purchases although OCC recognizes that such was not the case.

OCC first suggests that Columbia could have substantially reduced its gas costs by investing in the "Fairwood Connection." The Fairwood Station, the southern border station for the Columbus market area, is approximately 15 miles from a Consolidated Gas Company transmission line (Tr. V, 92). OCC contends that if Columbia connected its facilities at the Fairwood Station with the Consolidated Pipeline, Columbia could have saved $3 million to $3.5 million during the audit period due to the lower gas costs of Consolidated. These estimated savings do not reflect the cost of constructing the necessary line; however, it is OCC's belief that Columbia's savings in gas costs from outside the audit period could recoup the costs of construction. This rationale is based on OCC's assumption that Columbia's cost to build a 10 mile interconnect line would be half of the company's estimate of May 1984 costs to construct a 35 mile Eastern Supply line. Thus OCC's total estimated cost for the Fairwood Connection would be $2,059,000 (OCC Brief at 77). As another alternative OCC contends that if Columbia secured merely transportation of gas through the Consolidated pipeline instead of purchasing gas from Consolidated, the savings in gas costs for the GCR period could have amounted to $2,190,000 to $3,677,375.

Next, OCC estimates potential gas costs savings for Columbia through earlier construction and completion of the Maumee Exchange Gate with The East Ohio Gas Company. Columbia began construction of that exchange station in response to recommendation number 16 in the Touche-Ross Audit. The Maumee Exchange Gate was eventually completed for Columbia's use in March, 1985. The exchange station proceeding was originally a part of this proceeding as Case No. 84-1129-GA-UNC. However, a stipulation was filed by all parties concerning the priority and use of the exchange station. The Commission issued an opinion and order on March 12, 1985 adopting the parties' stipulation and resolving all future use issues.

It is OCC's contention in this GCR proceeding that Columbia should have had the gate in existence prior to the commencement of this GCR period (i.e. June 1, 1983). OCC believes that there is no reason why such a gate could not have been constructed prior to the audit period (OCC Brief at 80-81). OCC then calculates an estimated cost savings based on the assumption that the Maumee gate could have transported 11,250,000 Mcf annually of gas at a lesser price for the audit period. OCC calculates the lost opportunity costs of gas purchased through the Maumee gate for the audit period at between $2,081,250 and $4,027,500 (OCC Brief at 82).

OCC further asserts that Columbia should also have had an additional exchange gate with East Ohio to provide alternative, less expensive gas supplies to the Lorain-Elyria market for use during the audit period. OCC picked a point between Elyria and Lorain which is less than 15 miles from a major East Ohio Gas transmission line and contends that Columbia has never analyzed the prospect for an exchange gate at that location to serve both markets instead of just Elyria.

Assuming that Columbia displaced 80% of its TCO deliveries into these markets with other interstate gas priced at $3.60 per Mcf, OCC contends that Columbia could have reduced its GCR period gas costs by $7,733,317. If Ohio gas had been purchased at a 35¢/Mcf or 18.5¢/Mcf unit cost savings, the savings would total $6,766,653 or $3,576,659, respectively (OCC Brief at 84). These figures do not include any of the cost of constructing such a gate. However, OCC suggests subtracting $2,059,000 as an estimated cost of construction. This figure is again calculated by taking half of the May 1984 estimated costs of constructing the 35 mile Eastern Supply Line as shown on OCC Ex. 12.

OCC also believes that the smaller Columbia market areas of Portsmouth, New Boston, East Liverpool and Coshocton could have been served by purchasing gas from non-TCO suppliers during the GCR period. OCC recognizes that these areas were not (and are not) connected to alternative suppliers, but OCC believes each market is close enough to another interstate or intrastate transmission line to have made connection feasible (OCC Brief, at 84-85). OCC estimates the cost savings from these potential purchases at between $534,918 and $1,283,804 based on prices of $3.86 per Mcf to $4.00 per Mcf (OCC Brief at 85).

Finally, OCC contends that Columbia failed to significantly increase its purchases of Ohio Gas for direct delivery into Columbia's market areas during the audit period. OCC notes that the Commission has emphasized its concern in previous orders about the minimal amount of Ohio gas purchased by Columbia. In Columbia's last GCR proceeding, the Commission also indicated its belief that implementation of the Touche-Ross management audit recommendations would result in increased purchases of Ohio gas by Columbia (Opinion and Order, May 18, 1983, at 5). Thus, in addition to the examples already discussed, OCC contends Columbia previously had opportunities to procure other Ohio produced gas for delivery directly into nearby markets and failed to capitalize on the opportunities. In support of its position, OCC argues that the company's actual ability to obtain Ohio gas in just such a manner subsequent to the audit period is evidence that some gas could and should have been available to Columbia for use during the audit period. OCC lists Ashland, Athens, and Medina as examples of market areas where Columbia has been able to serve at least part of the market's requirements by utilizing Ohio production. Using Columbia's audit period average Ohio gas purchase price of $3.60 per Mcf, OCC estimates that Columbia could have saved $1,612,525 to $2,064,176 if it had displaced TCO gas with Ohio production in these three markets during the audit period (OCC Brief at 98-99).

Columbia opposes OCC's proposed reconciliation adjustment on a variety of grounds. Generally, Columbia urges the Commission to consider the witness's qualifications and personal knowledge of the subject matter as well as his demeanor and, credibility. More specifically, Columbia directs the Commission's attention to the assumptions made by OCC witness Donkin and asserts that the assumptions must be factually supported by the evidence in the record in order to be valid and/or provide a reasonable basis for the recommendations. It is Columbia's contention that Mr. Donkin's assumptions are not supported by empirical studies; nor do his experience and background lend credibility to his assumptions or conclusions. The company's primary argument is that:

> Mr. Donkin has not provided any studies which demonstrate what supplies are available, or what costs would be incurred by Columbia in obtaining those gas supplies. Absent such studies, it is impossible to reach a valid conclusion that those supplies could be delivered to Columbia's markets at a lower cost than TCO's commodity rate.

(Columbia Brief, at 18). Columbia also asserts that its management decisions are to be presumed reasonable unless the evidence convincingly demonstrates otherwise. West Ohio Gas Company v. Pub. Util. Comm., 294 U.S. 63 at 72 (1935).

Columbia asserts that OCC's proposed reconciliation adjustments to estimate the potential gas costs savings that Columbia could have realized during the audit period by purchasing from other gas suppliers rather than TCO are not based on sound data or sound rationale. Columbia contends that OCC's first calculation, based on the example of Washington Gas Light and the savings that WGL realized by diverting some of its purchases from TCO (its primary supplier) to an alternate supply source, must be rejected for several reasons. The first is a legal reason; the underlying data for the calculation is not part of the evidentiary record in the proceeding. Thus, Columbia believes no weight should be accorded this portion of the testimony since it is based on hearsay information which was not subject to cross-examination. It should be noted that the hearing examiner denied the company's motion to strike the testimony which contained a recitation of the information contained in Washington Gas Lights' Annual Report to shareholders. However, the examiner did limit the purpose of admission by stating that "... it will be left in for the limited purpose of establishing that was 1983's annual report to stockholders and not for the facts being true within that report" (Tr. VII, at 115). Thus, Columbia asserts that since the underlying data for Mr. Donkin's calculation of an estimated saving for Columbia are not part of the evidentiary record, the proposed adjustment is not based on evidence of record and is inherently unreasonable.

The second objection Columbia has to the WGL calculation is factual. Columbia states that the WGL example is only valid if the situation of the two utilities (WGL & Columbia) is comparable. Columbia asserts that the record establishes that the two companies are not comparable; thus, a calculation of actual savings experienced by one company (WGL) may have little or no relevance for the other company (COH). Columbia also asserts that witness Donkin offered no evidentiary support for the source of the alternate supplies at the assumed prices of \$3.86 or \$3.60 per MMBtu, nor did the witness explain how the volumes would be transported to Columbia's markets.

As to OCC's second proposed reconciliation adjustment of \$11.5 million encompassing the three segments, Columbia objects on similar factual grounds. The company contends that all three segments assume that certain conditions exist, assume certain volumes being transported, and further assume a unit cost savings of 35¢ per MMBtu. Obviously, to be valid, each assumption must be reasonably supported by the evidence and have some basis in reality. The calculations may be accurate but to reach a reasonable result the data being used in the calculations must represent something approximating reality or the exercise is worthless.

ODOD and OMA both join with Columbia to criticize OCC's calculation regarding the volumes and pricing of gas moving through the Columbia/East Ohio exchange station which OCC alleges could have saved $2.1 million during the audit period. ODOD, OMA and Columbia all assert that the capacity assumed by OCC witness Donkin is not a realistic volume because of operating constraints. Furthermore, the parties contend that if the exchange gate were operated in the manner suggested by Mr. Donkin, the self-help program would have suffered, thereby harming Ohio industries and ultimately the Ohio economy.

ODOD, OMA and Columbia are also extremely critical of the estimated 35¢ per MMBtu savings used in OCC's calculation. A quote from page 7 of OMA's brief sets forth Mr. Donkin's errors most clearly.

> Perhaps the weakest link in Mr. Donkin's calculation came in his pricing of these volumes. Not only did he compare an average embedded Ohio gas cost with an incremental COH principal supplier gas cost (Tr. IX 50-51), but also he developed his Ohio gas cost not on reality but on his opinion based upon average nationwide figures (Tr. IX 53). While trying to defend this "yard stick measure," he conceded that of course there was no place where COH could buy the gas at this price (Tr. IX, compare 53 with 54). Mr. Donkin's price calculation assumed that COH could buy these variable supplies of Ohio gas for $3.4363 per Mcf in East Ohio Gas' gathering territory, where East Ohio is offering $3.60 per Mcf (Tr. IX, compare 52 with 48). Mr. Donkin spoke to no producers or East Ohio employees on this issue (Tr. VIII 155, IX 34-35). He had no work papers to support his calculations (Tr. IX 32, 50-51, 53).

OCC's proposed reconciliation adjustments are obviously based on the premise that if Columbia were interconnected to several interstate pipelines the company, through flexibility of access to additional gas supplies, could have reduced its gas costs for the GCR period under review. This Commission finds no fault with that basic notion. However, after carefully reviewing the two major reconciliation adjustments proposed by OCC, and the numerous other examples offered in support thereof, it is our conclusion that the evidence offered in support of the specific proposals simply does not warrant a finding that Columbia could actually have reduced its gas costs by the suggested amounts. Consequently, the reconciliation adjustments proposed by OCC must be rejected in their entirety.

However, we do conclude, after a review of all of the testimony presented on the issue of Columbia's purchasing policies during the audit period, that Columbia was not at that time aggressively pursuing all available supply options. We recognize, as pointed out in the DH&S audit report, that there were constraints which made certain alternatives difficult. But many of those constraints were of Columbia's own making, and we believe that had Columbia not taken the comfortable route of relying to the degree it did on its affiliate companies, it would have been in a position, during the audit period, to avail itself of alternate less expensive supplies.

We have been concerned for some time about Columbia's affiliation with its major supplier, and whether that affiliation has dampened the company's efforts to obtain alternative supplies of gas. Mr. Donkin has pointed out that Columbia's behavior during the audit period was different from that of non-affiliated companies, and, although we do not know if the savings were available to Columbia to the same degree, we do believe Mr. Donkin is correct in inferring that Columbia was not aggressively pursuing less expensive sources of supply. Although Columbia's purchases of Ohio produced gas have been increasing, they were during the audit period, and still are in fact, minimal.

Columbia's loyalty should be not to its affiliates, but to its Ohio ratepayers. It appears to this Commission that Columbia's management is overly influenced by its parent and/or sister companies, and that some action is necessary to ensure the independence of Columbia's decision making. An independent board of directors for Columbia Gas of Ohio, Inc. should be established; a majority of those directors should live or work in the company's service territory, and should not be employees of the company or associated with the Columbia Gas System. It is good, sound management practice to have an independent majority of outside directors. We will require Columbia to develop a plan for so reorganizing its board of directors within a reasonable time.

Although the record is sufficient to show that Columbia was imprudent in its purchasing practices during the audit period, it does not provide a firm basis for determining the cost to Columbia's ratepayers of that imprudence. The fact is, the company did not take actions necessary to provide options, including physical links, for obtaining gas supplies at the most competitive prices for either the short-term or the long-term. With regard to a remedy for this imprudence, OCC provided several suggested reconciliation adjustments, but has failed to provide a strong enough basis for those recommendations. The Commission cannot order a reconciliation adjustment of the magnitude recommended on such a scant basis.

OCC's first recommendation that Columbia's gas costs were excessive by $13 million is based on the example of Washington Gas Light Company. However, Mr. Donkin did not show that it is reasonable to assume that the savings realized by Washington Gas Light were realizable to the same degree by Columbia. Additionally, the Commission finds that the underlying data in support of the calculation is not evidence in this record, as the examiner properly limited the purpose for which the exhibit was admitted.

Similarly, OCC's second proposal contains fatal evidentiary flaws. All three segments contain calculations which assume that Columbia could make alternative gas purchases for 35¢ per MMBtu less than the company would otherwise have paid to TCO. Yet Mr. Donkin never adequately explained how that figure was derived.

The second segment of Mr. Donkin's recommendation also contains some faulty assumptions and indicates a lack of operating experience with exchange stations. The witness also demonstrated a lack of knowledge concerning the manner in which local volumes are produced and transported upstream of these exchange stations. ODOD, OMA, and Columbia are all in agreement that the exchange station can not be physically operated in the manner suggested by OCC. The Commission must agree that the record in this proceeding establishes that the exchange gates cannot be utilized to 100% of capacity. It is also apparent from the record in this proceeding that in calculating an available volume figure from one of the exhibits, Mr. Donkin mistakenly construed capability to mean capacity (Tr. XIII at 97-98). Mr. Donkin simply chose to ignore many of the constraints upon the gate's capacity. OCC's calculations of potential savings also fail to take into account the revenue that would be lost to Columbia from ɔt transporting the self-help volumes.

In support of its argument that Columbia extended a preference to best efforts self-help customers, OCC points to a company memo dated May 4, 1984, which recommends that certain actions be taken by the company in the future. Since the audit period for this proceeding ended on May 31, 1984, the memo is basically irrelevant to this proceeding and cannot be used to establish what Columbia's policy was for the preceding year.

Finally, as just one example of the problems contained in OCC's recommendations set forth in brief but which were not contained in the Mr. Donkin's direct testimony, we note that the figures to support the savings from the Fairwood Connection are not part of the record in this case. Consequently, there is no way we could use these numbers.

Moreover, the management auditor appointed by the Commission, DH&S, while doubtlessly correct in the assessments which it made, in our judgment took a much too narrow view of both its assignment and Columbia's purchasing obligations. The auditor, like Columbia, should look beyond the existing constraints, both physical and economic, and make judgments based on a policy aimed at maximizing options and flexibility.

In sum, although we have determined that Columbia's purchasing practices were imprudent during the audit period, we have no basis on which to calculate the cost of that imprudence to Ohio's ratepayers. However, the more important concern of this Commission is that the matter of Columbia's purchasing practices is an ongoing problem, which continues to affect Ohio ratepayers, as evidenced by the time spent in the hearings held in these consolidated cases arguing over Touche-Ross recommendation number 3, relating to the improvement of Columbia's access to alternate supply sources. We believe that it is crucial that we find a solution to this problem, which will not result in further expense to the ratepayers.

The debate during the hearing centered on the prioritization of the T/R recommendations. OCC argues that Columbia has failed to study the feasibility of purchases from or through interstate pipelines other than Columbia Gas Transmission Corporation, thereby failing to comply with the T/R recommendation or even its own revised implementation plan regarding that recommendation. Columbia points out that its initial emphasis was on T/R recommendations 16, 17 and 20, dealing with increased purchases of Ohio produced gas.

We recognize that some improvement occurred with respect to Columbia's use of Ohio produced gas. There has been no showing, however, that Columbia has taken <u>any</u> action to analyze the costs and benefits of obtaining gas from interstate suppliers other than TCO. This inaction on Columbia's part, regardless of how it prioritized the T/R recommendations, is evidence of Columbia's continuing imprudence.

Touche-Ross recommendation number 3, and Columbia's implementation thereof, created much controversy in this proceeding. The dispute was between OCC and Columbia, and arose because of OCC's contention that Columbia has failed to implement reasonable management practices to obtain access to alternate sources of supply. Associated with this contention is OCC's assertion that Columbia has failed to study the feasibility of purchases from or through interstate pipelines other than Columbia Gas Transmission Corporation. Further, OCC asserts that Columbia's revised implementation plan commits the company to study the feasibility of securing access to gas through interstate pipelines other than TCO. It is OCC's belief that Columbia has failed to demonstrate that the company has actively pursued access to other interstate pipelines or that Columbia has complied with the T/R recommendation in this respect. Consequently, OCC argues that the company has not met the requirements or objectives of its own revised implementation plan concerning recommendation number 3.

Columbia submits that it has a difference of opinion with OCC as to the priority to be assigned to alternate supplies referred

> With regard to the timetables, Event No. 2, set for July 1, 1984 is behind schedule due to vacations. COH expects to be back on track within 30-45 days and anticipate no impact on remaining dates.
>
> The efforts being made demonstrate the commitment of the Company to implementing this Recommendation.

(Comm. Ord. Ex. 1, at 48).

It is OCC's conclusion that T/R recommendation number 3 is the single most important recommendation in the T/R report (OCC Brief, at 3). OCC's emphasis on this recommendation centers on the securing of access to other interstate pipelines as opposed to improving access to alternate sources of supply in general.

Columbia's implementation of this specific portion of the recommendation was to be started by an evaluation by July 1, 1984, of the prospect of being successful at the FERC regarding the feasibility of purchases from other interstate pipelines. The next steps, if there was an affirmative result at FERC, would be to determine volumes, costs, transportation and the benefits of such purchases (Columbia Ex. 4, at 10).

OCC notes that Columbia did not complete its evaluation of the prospect of being successful at the FERC by July 1, 1984, the original target date. The DH&S audit report stated that the company's evaluation was behind schedule due to vacations, and reported that Columbia had set a revised target date of August 31, 1984 (Tr. II, 171-172).

OCC argues that Columbia has been inactive in pursuing the key portions of T/R recommendation number 3. In support of this argument, OCC notes that Columbia did not complete its evaluation of being successful at the FERC by the revised August 31, 1984 deadline, or even by September 27, 1984, at the time of Mr. Lee's deposition (Tr. VI, 10), nor was a written evaluation completed in mid October 1984 at the time Columbia responded to OCC's discovery requests (Tr. VI, 63-64; OCC Ex. 50). OCC witness Donkin testified that "Columbia has prepared no studies evaluating the prospects of being successful at the FERC regarding the feasibility of purchases from or through other interstate pipelines." (OCC Ex. 1 at 25). OCC further contends that Columbia has failed to complete any cost-benefit or economic studies regarding improving Columbia's access to interstate pipelines, and that Columbia has not proceeded to the follow-up steps in its revised implementation plan (Tr. VI, 60-61; OCC Ex. 47, 48; Tr. XII, 134-135).

Additionally, OCC believes that Columbia has judged the outcome of any studies regarding obtaining access to other interstate pipelines prior to their completion (Tr. VI 60-61; Tr. XII, 134-135; OCC Ex. 47 and 48). Thus, OCC asserts that Columbia has already apparently concluded that obtaining access to interstate pipelines other than TCO would be "ill-advised" "cost inefficient" "not-economical" and "a waste of its and its ratepayers money" (Columbia Ex. 17, at 5, Ex. 18, at 2 and 11). OCC believes that these Columbia conclusions are not only unfounded, but reflect the company's prejudgment that Columbia has no intention of pursuing large quantities of gas through alternate interstate pipelines.

OCC witness Donkin testified that he believes Columbia, given its almost total dependency on TCO as a supplier, should be seeking ways to displace significant quantities of TCO gas with supplies from other pipelines. Mr. Donkin stated that, in his opinion, Columbia should have performed numerous ongoing studies and cost-benefit analyses of ways to displace TCO gas with gas sold or delivered by other pipelines (OCC Ex. 1, at 35-37). Thus, OCC recommends that the Commission find that Columbia has not adequately carried out its revised implementation plan with respect to Touche-Ross recommendation number 3. If the Commission so finds, OCC further recommends that the Commission select and retain, at shareholder expense, an independent natural gas expert to conduct the studies which OCC asserts should have been completed by the company. At pages 22-23 of its brief, OCC sets forth specific items that the expert should be directed to investigate. Finally, in conjunction with OCC's emphasis on connections to other interstate pipelines, OCC recommends that the Commission direct Columbia to set a projected target for obtaining large quantities of interstate gas supplies within a reasonable period of time (OCC Brief, at 23-32).

The staff, like OCC, finds that there is an absence of documentation and analysis of the costs and benefits of building a connecting line between a major Columbia market area (such as Columbus) and an alternative interstate pipeline (such as Consolidated Gas Transmission Corporation). This particular study, The Fairwood Connection, is to be provided by Columbia as a result of the stipulation in Case No. 84-1129-GA-UNC. The stipulation, which was approved by the Commission on March 12, 1985, provides in pertinent part:

> As a vehicle to increase the diversity of its gas purchases Columbia Gas of Ohio agrees to conduct analyses and studies regarding the cost, benefit and feasibility of the Fairwood Connection and "Eastern Pipeline." Columbia agrees to provide the parties <u>and</u> file with this Commission the Fairwood Study within 6 months of the journalization of the order accepting this stipulation.

(Staff Brief, at 9).

The Commission notes that as of September 27, 1985, the Fairwood Study had not been filed by Columbia. That study should have been filed on September 12, 1985 and is, thus, overdue. We also observe that Columbia has missed other deadlines set forth under recommendation number 3. We conclude that Columbia has clearly failed to demonstrate its sincere commitment to improving its access to alternate sources of supply. We believe that prudent, independent gas management would have aggressively pursued this Touche-Ross audit recommendation, thereby improving the company's access to significant quantities of gas from other interstate suppliers. The record adequately demonstrates that Columbia has stalled and delayed on the implementation of this recommendation. We believe the company's actions in this respect are imprudent and we will not allow the excuses to continue.

Consequently, this Commission finds it appropriate to specifically direct that corrective action be taken. To such extent as is determined by the Commission to be reasonable, the expenditures for such corrective action will be deemed to be contributions to capital, and will not become part of Columbia's rate base. On or before November 8, 1985, Columbia shall submit a plan for improving Columbia's access to other pipelines. The report should provide studies of several possible connections and include detailed cost-benefit analyses. Projected costs and volumes and estimated time periods for completion should also be included. Other interested parties may also submit proposals, or the parties may choose to coordinate their efforts with Columbia to reach some agreed-upon proposals. The plan(s) should be submitted under Case No. 84-6-GA-GCR, and we will leave that docket open while we monitor the actions to be taken to correct for Columbia's past imprudence.

V. INVESTIGATION INTO THE GAS PURCHASING PRACTICES AND POLICIES OF COLUMBIA

As noted earlier in this Opinion and Order, Touche Ross & Co. submitted its report on the investigation of Columbia's gas purchasing practices and policies on November 14, 1983. The PUCO initiated this management audit of Columbia to assist the Commission in determining the extent to which Columbia's procurement policies and practices enable the company to provide gas service to its customers efficiently, safely and at the lowest possible cost. Touche Ross & Co. endeavored to identify specific opportunities for Columbia's improvement and to develop recommendations for Columbia's implementation. The audit was limited to activities and operating functions which impact Columbia's gas procurement decisions and the management of its gas supply.

To enhance the audit process and provide meaningful public participation, the PUCO established a ten-member public advisory committee (PAC). The PAC met eight times during the audit period and also met with the management of Columbia and TCO. The PAC also provided Touche-Ross with a list of approximately eighty questions which the committee felt should be considered in the audit process.

Touche-Ross noted that the audit findings deal only with those areas directly related to Columbia's gas purchasing practices and the findings are directed at identifying opportunities for improvement. Those areas which were not addressed specifically in the findings and recommendations were considered by Touche-Ross to be adequate and efficient (Touche-Ross Report at 3).

Touche-Ross also specifically stated that "our findings and recommendations are prospective in nature and should not be used to evaluate historical management performance. The natural gas distribution industry is experiencing major changes and many of our findings and recommendations are directly related to this changing environment" (Touche-Ross Report at 3).

Before setting forth the twenty-six recommendations which were contained in the management audit, Touche-Ross provided an overview of the Columbia System which may be useful to reiterate. Touche-Ross stated its belief that, in the short-term, Columbia has only very limited control over the procurement of its supplies of gas for distribution to its customers. Touche-Ross noted that Columbia has one primary supplier of natural gas -- that being TCO, which is another affiliated company in the Columbia Gas System. Columbia's distribution system is not interconnected by Columbia pipelines; thus, Columbia is dependent upon TCO to transport its supplies between markets. Touche-Ross noted that although about 80% of the rates charged to customers is comprised of the cost of gas, Columbia's gas procurement organization can do little to impact the cost of gas. This is because Columbia provides TCO with a forecast of its supply requirements and then TCO is responsible for procurement and pricing of those supplies. Touche-Ross observed that the PUCO has no direct regulatory authority over TCO since TCO is regulated by the Federal Energy Regulatory Commission. Touche-Ross focused the majority of its recommendations on long-range actions Columbia should pursue because Touche-Ross determined that there were only a limited number of options available to Columbia which would substantially reduce the cost of gas within a short-time frame (Touche-Ross Report at 4).

The Touche-Ross audit report issued on November 14, 1983, contained twenty-six specific recommendations. Columbia subsequently filed comments to that audit report on November 21, 1983, expressing the company's view on the audit recommendations. The company's response indicated its willingness to voluntarily implement twenty-four of the twenty-six recommendations. Although

Columbia disagreed with portions of the audit and some of the recommendations contained therein, the company submitted an implementation plan on April 2, 1984. This implementation plan was designed to provide compliance with twenty-four of the recommendations and to establish goals and timetables for compliance.

As noted earlier, a prehearing conference was held on April 16, 1984, with the staff, the examiner, and all parties including representatives of the public advisory committee. All parties were given the opportunity to suggest revisions, modifications, deletions, and any other changes to Columbia's implementation plan that were believed necessary. As a result of that conference Columbia filed on May 1, 1984 its "revised implementation plan" incorporating all suggestions which had been agreed upon at the conference. Consequently, via these actions of the parties, the focus of the management audit has shifted from the original Touche-Ross audit to Columbia's revised implementation plan, except for a few limited recommendations on which the parties did not reach agreement. In this proceeding, DH&S, the management/performance auditor retained by the Commission to perform the GCR audit, was specifically directed to test the reasonableness of the company's revised implementation plan.

Due to the significance of the management audit process we believe it is appropriate to list at this point, the twenty-six audit recommendations as they will be implemented by Columbia through its revised implementation plan. Thereafter we will discuss, in more detail, several of those that need further analysis.

The audit recommendations as contained in the revised implementation plan are as follows:

1) Develop a Strategic Business Plan

2) Develop Viable Gas Procurement Function

3) Improve Access to Alternate Supply Sources

4) Develop Status Reporting Procedure

5) Develop Management Environment

6) Evaluate Modifying Policy of Firm Supply For all Customers Under All Conditions

7) Document Procedure to Determine Contract Volumes

8) Improve Forecast Accuracy

9) Initiate Efforts to Replace Winter Service Tariff

10) Make Winter Service Nomination Decision Based on Lowest Present Value of Gas Cost

11) Develop Formalized Decision Making Process (As to Gas Supply Planning)

12) Develop Process to Monitor TCO Activities

13) Develop Gas Supply Department Procedures

14) Improve Management by Objectives Program (As to Gas Supply Planning)

15) Investigate Conservation Measures

16) Investigate Building New Exchange Stations

17) Increase Purchases (of Ohio Produced Gas) Within East Ohio Gas Territory

18) Diversify Source of Ohio Purchases

19) Investigate Amending East Ohio Gas Exchange Station Contract

20) Investigate Increasing Existing Exchange Station Capacity

21) Utilize TCO Transportation Programs

22) Assess Impact of Proposed Contract Carriage Legislation

23) Investigate TCO Firm Delivery

24) Evaluate Impact of Ohio's Petition For a Declaratory Order at FERC

25) Investigate Displacement Arrangements With Interstate Pipelines

26) Develop Proactive Approach (To Ohio Gas Purchasing Policies)

DH&S then provided an assessment of the progress that Columbia has made with respect to the Revised Implementation Plan, dated May 1, 1984. As to each of the twenty-six points of the plan, DH&S reviewed: (1) the timetables and strategies developed for each work plan, (2) the company's understanding of the intent of each recommendation and (3) the movement towards achieving each objective (Comm. Ord. Ex. 1 at 44). The auditor's assessment is set out in detail on pages 44 to 73 of the audit report and will not be discussed at great length in this order. It is worth remembering that the DH&S audit report was filed on August 1, 1984. Given the length of time covered by these proceedings and the fact that the record was not closed until reply briefs were filed on May 17, 1985, it is obvious that many circumstances changed and needed to be updated during the course of the proceedings. Consequently, many items which were listed in the audit report as being in the planning or implementation stage are now accomplished and need no further mention. We will, therefore, concentrate our attention on just a few of the implementation items on which the parties have focused their attention.

However, before discussing those specific items, the Commission believes some general observations concerning the entire management audit process are in order. First of all, we believe the Commission's undertaking of this audit to review the purchasing practices and policies of one of our state's primary gas suppliers has proven to be a positive and worthwhile endeavor. Our overall objective in this area is, of course, to assure that gas utility customers within our jurisdiction are able to obtain adequate supplies of gas at minimum prices.

The following discussion highlights just a few of the notable accomplishments resulting from the management audit process. A new Maumee Exchange Gate is constructed and in operation and is expected to transport approximately 22,287 Mcf/day of additional gas, primarily Ohio produced, to Ohio customers. Capacity at the Parma and Lima City exchange gates has been increased by approximately 6,000 MMcf annually, and the National Oil & Gas exchange stations have also added approximately 1,100 MMcf of capacity annually. Local Ohio produced gas is expected to increase from just two percent of Columbia's total purchases in 1984 to approximately seven and a half percent by 1990.

Furthermore, as a result of the Commission-approved settlement in Case No. 84-1129-GA-UNC, Columbia will be conducting analyses and studies regarding the cost, benefit, and feasibility of the Fairwood Connection and "Eastern Pipeline". Columbia has also agreed to provide the Fairwood Study to the parties in this proceeding and to file the study with the Commission.

Columbia has retained a consultant to assist the company in its efforts to improve forecast accuracy for all customer classes. Sophisticated econometric models for all classes of customers will be incorporated into the company's planning process in the very near future and a residential model has already been developed for expected use in 1985.

Columbia also retained a consultant (Booz-Allen) to assist in preparing an overall "Plan for Planning". This plan will provide a schedule and timetable for compliance with Touche-Ross recommendation number 1 -- "Develop a Strategic Supply Plan". Columbia notes that in one way or another, most of the other Touche-Ross recommendations flow out of the new strategic gas supply plan.

The Commission wishes to recognize the cooperation and extensive efforts of many of the parties to this proceeding, including the members of the public advisory committee. The PAC was a novel idea for Commission proceedings and the Commission believes the committee served a very necessary and beneficial function. Our appreciation is extended to them individually and as a group.

The prehearing settlement conference held on April 16, 1984, brought many parties with diverse interests together to attempt to reach a collective consensus on the difficult question of "where do we go from here?" For the most part, after extensive and difficult discussions, a consensus was reached. The direction was towards a new, improved, and future-oriented Columbia which is, obviously, a large step in the right direction. Consequently, it is our firm belief that the benefits of the management audit process can be directly seen and will be realized by Columbia's customers in a very real economic sense via decreased gas costs, now and in the future.

Touche-Ross Recommendation Number 1

Strategic Business Plan

The very first recommendation made by Touche-Ross was that Columbia should develop a strategic business plan to enable the company to address its operational independence and efficiency, and the changing dynamics of the natural gas industry. This recommendation is considered by Touche-Ross, the staff, DH&S and Columbia to be the recommendation with the highest priority. The implementation of most of the other T/R recommendations is directly dependent on the implementation of this recommendation.

In part because of the importance of this recommendation, Columbia retained the services of Booz-Allen, an independent consultant, to assist Columbia in the development of a "Plan for Planning" (Columbia Ex. 6). The Booz-Allen report was initially expected in August 1984 but was not completed until October 1984. The Booz-Allen report found that Columbia had in place "virtually all of the components of what we would view as an effective gas supply planning process" (Columbia Ex. 6, at 1-4). The report did make several recommendations aimed at strengthening the existing planning process (Tr. III, 32). Mr. Schlesinger, a representative from Booz-Allen, appeared and testified regarding the Booz-Allen report and was cross-examined by the parties. Due to the date that the Booz-Allen report was completed, DH&S was not able to evaluate the results of the "Plan for Planning" (Comm. Ord. Ex. 1, at 45).

Company witness Lee testified that development of the strategic business plan is Columbia's number one priority for 1985 (Tr. VI, 118). Mr. Lee's testimony also indicates that the supply planning department will be preparing a paper which describes the gas industry as Columbia sees it today and where it is headed (Tr. VI, 119). Additionally, the department will be conducting studies to enable Columbia to establish a range of various sources of gas, from which Columbia could potentially contract for gas over a period of time (Tr. VI, 119).

The Commission agrees that Columbia's stated goals as expressed by Mr. Lee are appropriate and should be implemented by the company. The staff, on brief, recommends that the 1985 management/performance auditor review Columbia's progress in completing and implementing the "Plan for Planning". Staff also believes it appropriate for the management/performance auditor to evaluate the objectives set forth for Columbia which are contained within the Booz-Allen report and to report on Columbia's progress in meeting those objectives. The Commission concurs in these staff recommendations and will direct the 1985 management/performance auditor to perform such an analysis.

Contained within the discussions of T/R recommendation number 1 is the parties' express recognition that the gas industry is in a period of rapid change (OCC Brief, at 34; Columbia Reply Brief, at 2). Columbia states that the company currently finds itself in a far different position than it did in November 1983, when the audit report was issued, or in May 1984, when the revised implementation plan was developed. Columbia observes that:

> [A]ccess to relatively low cost gas on the spot market has increased dramatically, due to expanded transportation opportunities. This flexibility is achieved through the use of existing pipeline facilities, and without the need to build expensive new facilities... Furthermore, as a result of the Columbia Gas Transmission settlement in the FERC proceedings... Columbia's gas costs will be significantly reduced and held at the new low levels for two years. In addition, TCO will be transporting additional volumes of relatively inexpensive gas purchased elsewhere by Columbia.

(Columbia Brief, at 2-3).

In light of this changing gas market, which OCC also explicitly recognizes in its brief, OCC contends that Columbia's strategic business plan must not only serve as a rational guideline but that plan must also address the changes taking place within the gas supply marketplace (OCC Brief, at 34-35). Consequently, OCC states that Columbia faces a redefined operating market and must have "flexibility" in its supply planning process.

Columbia, of course, could not agree more. It is in this vein that Columbia stresses that the emphasis of all concerned parties should be on the ongoing development and implementation of the total plan for planning, rather than on overly-rigid compliance with specific recommendations which are merely a part of the whole (Columbia Reply Brief, at 2).

The Commission agrees with this general philosophy. We acknowledge the fact that Columbia is the business entity which must ultimately make the difficult management decisions which the company will be facing. We recognize this and it is our intent to give the company the flexibility which it needs to prudently manage this gas utility company. We, as regulators, do not make management's decisions for them. Rather, those decisions are reviewed by this Commission to determine that they were made in the ratepayer's best interest and that a reasonable basis existed for the decision which was made.

Touche-Ross Recommendation Number 5

Management Environment

Touche-Ross recommendation number 5 stated that Columbia should hire senior management personnel from outside the Columbia Gas System to fill new positions which result from implementing the Touche-Ross recommendations. The original T/R recommendation was rejected by Columbia and replaced with a revised recommendation filed with the Commission on July 2, 1984. The revised recommendation number 5 states its goal as follows:

> To communicate to all employees of COH, and especially to those employees directly involved with gas supply activities, the commitments which have been made and the new activities that will be undertaken in the implementation of the specific (Touche Ross) audit recommendations; and able to provide adequate documentation of such matters in order to provide an on-going reevaluation of such implementation procedures.

Columbia's revised implementation plan and the Booz-Allen report do not address this recommendation. The DH&S audit report lists the status of the implementation of this recommendation as incomplete. The staff and OCC both request that they be provided with copies of the "white paper", which Columbia is to publish regarding the company's implementation of alternate recommendation number 5. The Commission concurs that Columbia should be directed to distribute the "white paper" to all parties to this proceeding and to implement the training module referenced in the DH&S audit report. The "white paper" should be distributed to the parties to this proceeding within 30 days of the date of this order. Finally, the management/performance auditor for Columbia's next GCR should review the impact that revised recommendation number 5 is having on creating an innovative environment for Columbia's management and employees.

Touche-Ross Recommendation Number 12

Process to Monitor TCO Activities

Touche-Ross recommendation number 12 states that Columbia should develop an explicit process for monitoring TCO's and other transmission company's activities and formally evaluate their impact on Columbia. Columbia has concurred with this recommendation and proceeded to establish the Federal Regulatory Activities (FRA) section to monitor FERC activities. DH&S notes that the draft and committee report are completed, but the final report, which is to establish procedures for implementation of this recommendation, is still pending. Columbia should make the final report available to the 1985 management/performance auditor. We also concur in OCC's and the staff's recommendation that the management/performance auditor shall review Columbia's activities before the FERC, particularly in TCO proceedings, and shall also report on the performance of the newly-formed FRA.

Touche-Ross Recommendation Number 15

Investigate Conservation Measures

This T/R recommendation stated that Columbia should investigate the economic feasibility of investing in conservation measures as a means of reducing the company's gas requirements and consequently avoiding costs associated with incremental purchases. The DH&S report lists several conservation programs which Columbia has undertaken in recent years for the benefit of its residential, commercial and industrial customers (Comm. Ord. Ex. 1, at 38-39). Additionally Columbia witness Lee testified that Columbia is working with the energy audit coalition in order to provide free energy audits to low-income families in Ohio (Columbia Ex. 3, at 14). In the revised implementation plan, Columbia states its belief that further action should be deferred until PUCO Case No. 83-303-GE-COI has been completed. Columbia also notes in its reply brief at page 5 that the general assembly is considering the weatherization and conservation issue and the company would like to know these results as well before proceeding with further plans.

Both OCC and the staff find fault with Columbia's progress on the implementation of this recommendation. The parties suggest that Columbia still needs to analyze the economic feasibility of conservation and weatherization programs to reduce future incremental purchases. It is also suggested that Columbia needs to incorporate this economic analysis into the company's strategic planning process. The Commission agrees with these recommendations and we will direct the company to implement them. The management/performance auditor should also report on the status of their implementation as directed by this order.

VI. SELF-HELP TRANSPORTATION CUSTOMERS' MONTHLY GAS BALANCES

The staff makes a recommendation in its brief that Columbia define and document its policy for recording and balancing the monthly volumetric balances for Columbia's self-help customers. The staff suggests that the company should be required to establish a mechanism whereby excess self-help volumes will be "banked" and then paid back in such a manner that jurisdictional GCR customers will not have to bear any additional costs. We find this recommendation to have merit. The company shall develop a policy and procedure on this matter and provide testimony on the subject at the next GCR proceeding. The financial auditor shall review the mechanism the company implements.

FINDINGS OF FACT: 84-6-GA-GCR

1) This proceeding was initiated by the Commission by Entry dated April 10, 1985, to review the gas procurement practices of Columbia Gas of Ohio, Inc., the operation of its purchased gas adjustment clause, and other related matters.

2) The public hearing began on September 18, 1985, and concluded on April 5, 1985. Notice of the hearing was published in accordance with the requirements of Rule 4901:1-14-08(B), Ohio Administrative Code.

3) A financial audit was performed by Arthur Andersen & Co., and a certificate of accountability was filed on August 15, 1984.

4) Arthur Andersen found that Columbia had fairly determined the GCR rates in accordance with the financial procedural aspects of Chapter 4901:1-14 and related appendices of the Ohio Administrative Code, and had properly applied the GCR rates to customer bills.

5) A management/performance audit, conducted by Deloitte, Haskins & Sells, was filed on August 17, 1984.

6) In its next GCR proceeding, Columbia should provide testimony on its implementation of the T/R recommendation that training programs be established for its market and supply planning departments.

7) Columbia should continue to implement the DH&S recommendations regarding forecasting and the organization of the supply planning and other departments.

8) Columbia failed to vigorously pursue alternative supply options during the audit period.

9) Columbia shall develop a policy for recording and balancing and the monthly volumetric balances for its self-help customers and shall provide testimony on this matter in its next GCR proceeding.

10) On or before November 1, 1985, Columbia shall file a plan to indicate specifically the manner by which Columbia will improve its access to alternate sources of supply.

<u>CONCLUSIONS OF LAW:</u>

1) Columbia Gas of Ohio, Inc. is a natural gas company as defined by Section 4905.03(A)(5) and (6), Revised Code, and is, therefore, a public utility subject to the jurisdiction of this 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 company's purchased gas adjustment clause at a hearing to be conducted annually, unless otherwise ordered by the Commission.

3) Notice of the hearing was published in compliance with Rule 4901:1-14-08(B), O.A.C.

4) Columbia has fairly determined the GCR rates in accordance with the financial procedural aspects of Chapter 4901:1-14 and related appendices of the O.A.C., and properly applied the GCR rates to customer bills during the period under review.

5) Columbia's purchasing practices during the audit period were imprudent and unreasonable.

<u>FINDINGS OF FACT:</u> 83-135-GA-COI

1) By Entry of January 20, 1983, the Commission initiated this investigation into the purchasing practices and policies of Columbia Gas of Ohio, Inc.

2) A management audit was conducted by Touche Ross & Co., and the report was filed on November 14, 1983.

3) On April 2, 1984, Columbia filed a plan for the implementation of the audit proposals. Following an April 16 prehearing conference, Columbia filed a revised implementation plan on May 1, 1984.

4) By Entry of April 10, 1984, Deloitte, Haskins & Sells, the management/performance auditor in Case No. 84-6-GA-GCR, was directed to assess the reasonableness of the company's implementation plan.

5) Columbia shall, in accordance with alternate T/R recommendation number 5, distribute to all of its employees, a "white paper" describing the commitment and activities undertaken by the company to implement specific T/R audit recommendations, and shall furnish to the parties a copy of that document within thirty days of the date of this order.

6) Columbia shall implement T/R recommendation number 15, regarding the investigation of conservation measures.

7) The management/performance auditor in the company's next proceeding shall investigate the matters indicated as remaining from the T/R report, and those matters shall then be addressed as part of the GCR proceeding.

8) Columbia has not adequately implemented recommendation number 3, regarding improved access to alternate sources of supply.

9) Case No. 83-135-GA-COI should be closed as a matter of record.

CONCLUSIONS OF LAW:

1) Pursuant to its revised implementation plan, Columbia has implemented, or is in the process of implementing, certain of the T/R recommendations.

2) The matters to be investigated by the management/performance auditor in Columbia's next GCR proceeding, as indicated in this Opinion and Order, will be reviewed in the next GCR case.

3) Columbia's purchasing practices have been imprudent by failing to aggressively pursue access to alternate sources of supply.

ORDER:

It is, therefore,

ORDERED, That, in its next GCR proceeding, Columbia provide testimony on its implementation of the T/R recommendation that training programs be established for its marketing and supply planning departments. It is, further,

ORDERED, That Columbia continue to implement the DH&S recommendations regarding forecasting and the organization of the supply planning and other departments. It is, further, ORDERED, That Columbia distribute to all of its employees a document describing the commitments and activities undertaken by the company to implement specific T/R recommendations, and that Columbia furnish to the parties a copy of that document within thirty days of the date of this Order. It is, further,

ORDERED, That Columbia implement T/R recommendation number 15 regarding the investigation of conservation measures. It is, further,

ORDERED, That the management/performance auditor in Columbia's next GCR proceeding investigate the matters indicated in Section V of this Order as still remaining from the T/R report, and that those matters be addressed as part of the GCR case. It is, further,

ORDERED, That Columbia file, on or before November 8, 1985, its plan for reorganizing its board of directors in accordance with this Opinion and Order. It is, further,

ORDERED, That Columbia file, on or before November 8, 1985, its plan for improving the company's access to alternate sources of supply consistent with this Opinion and Order. It is, further,

ORDERED, That Case No. 83-135-GA-COI be closed as a matter of record. It is, further,

ORDERED, That Columbia develop a policy for recording and balancing the monthly volumetric balances for its self-help customers, and provide testimony on the policy in its next GCR proceeding. It is, further,

ORDERED, That the financial auditor in Columbia's next GCR proceeding review the mechanism used by Columbia to "bank" and pay back self-help volumes. It is, further,

ORDERED, That a copy of this Opinion and Order be served on all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Thomas V. Chema
Thomas V. Chema, Chairman

William W. Brooks
William W. Brooks

Gloria L. Gaylord see below
Gloria L. Gaylord

Ashley C. Brown
Ashley C. Brown

Alan R. Schriber
Alan R. Schriber

I dissented in part and concurred in part on this Opinion and Order.
Gloria L. Gaylord

ENTERED IN THE JOURNAL 08 OCT 1985
(date)

P. M. Ausel

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Investigation Into the Gas Purchasing Practices and Policies of Columbia Gas of Ohio, Inc.	) Case No. 83-135-GA-COI

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. 84-6-GA-GCR

THE OPINION OF COMMISSIONER GLORIA L. GAYLORD DISSENTING IN PART AND CONCURRING IN PART

Most people agree that the beginning point for prudency, when specifically dealing with public utilities, is in a separate opinion filed by Mr. Justice Brandeis in 1923 in *Missouri ex. rel. Southwestern Bell Telephone Co. v. Public Service Commission* in which he noted:

> The term is applied for the purpose of excluding what might be found to be dishonest or obviously wasteful or imprudent expenditures. Every investment may be assumed to have been made in the exercise of reasonable judgement, unless the contrary is shown.

Generally, state commissions have seriously considered Justice Brandeis' admonition regarding prudent investments and have interpreted his statement as requiring a rebuttal presumption of prudence.

Prudency does not require that the best decision be made, only that a reasonable decision (during the specified time period) be made. Commissions should judge in light of the conditions and circumstances that were or should have been known to the utility at the time of its decision.

In the attached Opinion and Order for Case No's. 83-135-GA-COI and 84-6-GA-GCR on page 8 it is written:

> Deloitte, Haskins and Sells (DH&S) stated that Columbia has continually investigated purchases of gas from other regions of the country but transportation and FERC authorization have each been obstacles to alternate purchases.

On page 5 of the Attached Opinion and Order in Case No's. 83-135-GA-COI and 84-6-GA-GCR it states:

In general, the auditor concluded that Columbia is addressing the changes needed in planning and procurement given the changing environment, and is making good progress in the majority of the areas examined.

Given the references to the opinion of Justice Brandeis and to statements from the auditor, Deloitte, Haskins and Sells, I am unable to attach the label, imprudent, to the actions of Columbia Gas of Ohio during the time frame of this case.

I do feel the Commission is justified in requiring Columbia to submit a plan for improving Columbia's access to other pipelines. This directive is outlined on page 20 of the Attached Opinion and Order. With the anticipated signing by the FERC of RM 85-1, many of the rules and regulation in the gas area will change. It is my hope that Columbia Gas of Ohio will take advantage of the new possibilities open to it under the new FERC guidelines.

Gloria L. Gaylord

COMMISSIONER GLORIA L. GAYLORD

ENTERED IN THE JOURNAL 0 8 OCT 1985 (date)

P. M. Angel