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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Regulation of the Purchased Gas Adjustment Clauses Contained Within the Rate Schedules of Columbia Gas of Ohio Inc. and Related Matters.	)	Case No. 04-221-GA-GCR
In the Matter of the Regulation of the Purchased Gas Adjustment Clauses Contained Within the Rate Schedules of Columbia Gas of Ohio Inc. and Related Matters.	)	Case No. 05-221-GA-GCR

THE OFFICE OF THE OHIO CONSUMERS' COUNSEL
NOTICE OF FILING DEPOSITION

Pursuant to Ohio Adm. Code 4901-1-21, The Office of the Ohio Consumers' Counsel gives notice of filing the deposition of Larry W. Martin, which was taken on October 17, 2006.

Respectfully submitted,

Janine L. Migden-Ostrander
Consumers' Counsel

Larry S. Sauer, Trial Counsel
Joseph P. Serio
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
(614) 664-8574 (T)
(614) 664-9475 (F)
sauer@occ.state.oh.us
serio@occ.stat.oh.us

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing *Ohio Consumers' Counsel's Notice of Filing deposition*, was served via Electronic Mail, this 12th day of December, 2006.

Larry S. Sauer

PARTIES OF RECORD

Stephen B. Seiple, Esq.
Columbia Gas of Ohio, Inc.
200 Civic Center Drive
P.O. Box 117
Columbus, Ohio 43216-0117

John W. Bentine, Esq.
Chester, Wilcox, & Saxbe LLP
65 East State Street, Suite 1000
Columbus, Ohio 43215-4213

Duane Luckey, Esq.
Attorney General Section
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215-3793

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of: :
: Case No. 04-221-GA-GCR
The Regulation of the :
Purchased Gas Adjustment :
Clause Contained Within :
the Rate Schedules of :
Columbia Gas of Ohio, :
Inc., and Related Matters.:

\- - -

In the Matter of: :
: Case No. 05-221-GA-GCR
The Regulation of the :
Purchased Gas Adjustment :
Clause Contained Within :
the Rate Schedules of :
Columbia Gas of Ohio, :
Inc., and Related Matters.:

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DEPOSITION

of Larry Martin, taken before me, Rosemary F. Anderson, a Notary Public in and for the State of Ohio, at the offices of Columbia Gas of Ohio, 200 Civic Center Drive, Columbus, Ohio, on Tuesday, October 16, 2006, at 3:10 p.m.

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ARMSTRONG & OKEY, INC.
185 South Fifth Street, Suite 101
Columbus, Ohio 43215-5201
(614) 224-9481 - (800) 223-9481
FAX - (614) 224-5724

\- - -

APPEARANCES:

Janine L. Migden-Ostrander
Ohio Consumers' Counsel
By Mr. Larry S. Sauer
and Mr. Joseph P. Serio
West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

On behalf of the Residential
Consumers of the State of Ohio.

NiSource
By Mr. Stephen B. Seiple
200 Civic Center Drive
Columbus, Ohio 43215

On behalf of Columbia Gas of Ohio

Jim Petro, Ohio Attorney General
Duane W. Luckey, Senior Deputy
Attorney General
Public Utilities Section
By Mr. John Jones
180 East Broad Street, 9th Floor
Columbus, Ohio 43215-3793

On behalf of the Staff of the Public
Utilities Commission.

ALSO PRESENT:

Ohio Consumers' Counsel:
Mr. Michael Haugh
Mr. Bruce Hayes
Ms. Tessa Parsons

\- - -

Tuesday Afternoon Session,

October 16, 2006.

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STIPULATIONS

It is stipulated by and among counsel for the respective parties that the deposition of Larry Martin, a Witness called by the Ohio Consumers' Counsel under the applicable Rules of Civil Procedure, may be reduced to writing in stenotypy by the Notary, whose notes thereafter may be transcribed out of the presence of the witness; and that proof of the official character and qualification of the Notary is waived.

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LARRY MARTIN

being by me first duly sworn, as hereinafter certified, deposes and says as follows:

EXAMINATION

By Mr. Serio:

Q. Good afternoon, Mr. Martin. Have you ever been deposed before?

A. Yes.

Q. So you understand how this goes. If you don't understand any of my questions, I will try to clarify for you.

Would you state your name, address and current job title?

A. Larry W. Martin. My business address is 200 Civic Center Drive, Columbus, Ohio 43215.

Q. And what is your current job title and responsibilities?

A. I'm director of regulatory policy. My current responsibilities, primarily provide for the preparation, verification, and presentation and support of any filings made by Columbia Gas of Ohio, Inc. that involve a change in rates.

Q. And how long have you had that position?

A. Since March 1991.

Q. And your job responsibilities have been pretty much the same since March of 1991.

A. Yes.

Q. Are you -- do you work solely for Columbia of Ohio, or do you work for the other Columbia distribution companies also?

A. Columbia Gas of Ohio solely.

Q. Who do you report to in the hierarchy?

A. J. W. Partridge, Jr.

Q. And do you have anybody that reports to you?

A. No.

Q. Are you familiar with the 2003 stipulation that we discussed this morning with Mr. Brown?

A. Yes.

Q. And you also were involved throughout the inception of the stipulation, the discussions involving it; is that correct?

A. Yes.

Q. This morning I discussed with Mr. Brown some figures that the management auditor reported. See if you can shed some light on it. Look at page ES-7 of the audit report. There's a figure in the first column, first paragraph identified $68.6 million, and that's referred to as "Transition Capacity Costs." Do you see that?

A. Yes.

Q. Are you familiar with how that auditor calculated that $68.6 million in transition capacity costs?

A. That would be speculation on my part. I'm not sure.

Q. And then I believe lower on that page there's a $108.7 million figure for revenues and credits. Are you familiar with the revenues and credits associated with the 2003 stipulation?

A. Yes.

Q. What constitutes revenues and credits? What would be all the components?

A. Revenues and credits are comprised of revenues received through the direct assignment of capacity to marketers providing services through the Choice program and the various balancing service revenues, again received from those marketers participating in Columbia's Customer Choice program.

Q. When you say "direct assignment," you're talking about the value of pipeline capacity that goes to a marketer that follows a customer?

A. Yes.

Q. And from the balancing services, what are you referring to there?

A. The marketers must elect one of two balancing services to participate in Columbia's Customer Choice program. Those services are either nontemperature or full balancing service. It's the revenues received from Columbia for the provision of those services to the marketers.

Q. Where does off-system sales and capacity-release revenues come into play? Are they included as part of that 1.8 million?

A. I'm sorry, I don't understand your question.

Q. The 108.8 million on page ES-7, does that include off-system sales revenues and capacity release sales revenues, if you know?

A. No, it does not.

Q. It does not. So when the auditor lists revenues and credit amounts there, it's not -- that's not a complete number, and I would have to add in off-system sales and capacity-release revenues to get a complete number.

A. Can you define "complete number"?

Q. The total revenues and credits associated with the Choice program costs.

A. The total revenues, I think what I would like to do is take you back to McFadden request No. 90, and what you're looking at is, first of all, total transition capacity costs related to the program, being less revenues generated through the direct assignment of capacity, less balancing service revenues gives you net transition capacity cost. Off-system sales and capacity-release revenues shown below can be used to offset those, yes.

Q. To the extent the auditor says here that there's $40,076,434, is that the total for off-system sales and capacity-release revenues?

A. I'd like to look at No. 90.

Q. Sure.

A. I'm sorry, I misspoke myself. That $40 million was included in there, in his number.

Q. So the 40 million is part of the 108.8 million.

A. That's correct.

Q. Okay. And the 40 million represents off-system sales and capacity-release revenues.

A. Yes.

Q. And of that approximately 6.5 million went to customers, and this remaining 33.5 million went to the company; right?

A. What I am struggling with here, Mr. Serio, is the fact he used the 12 months ending October 31, 2005. He should have used the calendar year 2005 in his determination.

Q. It would make things a lot easier. Use his number just for purposes of me understanding what's here. What he's reporting is the 6.5 went to GCR and the remainder went to the company for that time period.

A. It did not all go for the GCR. Pursuant to the terms of the 2003 stipulation, any sharing would be shared with all customers through the Choice program sharing credit.

Q. So 6.5 went to GCR and other residential customers and the remaining 33.5 million went to the company.

A. That's correct for purposes of what you're saying here.

Q. Okay. This morning I discussed Attachment A of OCC Deposition Exhibit 1 with

Mr. Brown. Were you here during that discussion?
A. Yes.
Q. So to make it simple, Attachment A, 1 of 3, indicates this was the Respondent Larry W. Martin. That's you; correct?
A. That's correct.
Q. So you're the one responsible for creating this spreadsheet.
A. That's correct.
Q. Let's go through it so I can understand exactly what things are. It was created approximately September 30, 2003.
A. Yes.
Q. And if you look at line 3 where it says Marketer Revenues, would that 39 .3 million under 2005 be part of the figure that would make up the 108.8 million where you indicated that direct assignment was involved.
A. I'm sorry, which reference?
Q. Line 3, Marketer Revenues.
A. Okay. There's nothing on line 3.
Q. I'm sorry. Line 4, Balancing Services lists the 39.9 million.
A. This are the projected balancing revenues

we would receive from marketers, yes.

Q. That 39.9 would be part of what makes up the auditor's 108.8.

A. Yes.

Q. The time periods may be a little off, but the item itself is included.

A. Yes; from a conceptual standpoint, yes.

Q. Then is the capacity assignment item listed on line 5 also an item included in that 108.8 million?

A. Yes.

Q. And then line 6 says Increase to 75 percent. Can you explain to me what that is?

A. That's the capacity cost responsibility provision contained in Columbia's tariff which requires marketers to pay at least 75 percent of all capacity costs related to the Choice program.

Q. And would that also be part of what constitutes the 108.8 million?

A. Yes.

Q. Okay. So line 7, Total Marketer Revenues, that is one component that would make up the total program revenues and credit amounts; correct?

A. Yes.

Q. Okay. The other component of that would be line 11, 12 and 13, basically the capacity release and off-system sales dollars; correct?

A. Yes.

Q. Would there be anything else that would be included in making up the revenues and credits other than lines 4, 5, 6, 12 and 13 on Attachment A?

A. This schedule, Attachment A, is simply one of many proposals put forth by Columbia during the negotiation process. In addition to those dollars you've already identified, the schedule further provides for billing of a surcharge of 3 cents looks like in 2005, 3-1/2 in 2006 and 5 cents thereafter.

Q. That would be line 22.

A. That's correct, sir.

Q. I would add line 22 with lines 4, 5, 6 and 12 and 13.

A. That's correct.

Q. Is there anything else I'm missing, or would that constitute the total of the revenues and credits to your knowledge?

A. That's it, yes.

Q. Okay. And then for any of these line items, if you go to the far right-hand side of the page where it says Total, that would be a cumulative total for each of those years added together; correct?

A. That's correct.

Q. So, for example, if I went down to line 28, Net Choice savings, each dollar amount listed, $50 million in 2005, $53 million in 2006, that would be what was anticipated to be saved each year so that the 353 would be the total you anticipated Choice customers to save over the course of the six years; correct?

A. For this proposal, which would assume the participation rates shown thereon, that's correct.

Q. And the Choice participation rates that you were anticipating are listed in line 1 at the top of the page; correct?

A. I would not use the word "anticipating." I would use this as one of the many scenarios we probably looked at during the process.

Q. Is it safe to say that the number that you ended up with is what you assumed would be the most probable outcome?

A. No. I wouldn't characterize it that way.

Q. What is the 62 percent under your year 2005 indicate then?

A. The 62 percent simply represents a range that we projected under House Bill 9 roll-out governmental aggregation program.

Q. So you were assuming that if aggregation went into effect, that your Choice program would expand to potentially hit 62 percent.

A. Yes.

Q. And what did you base that 62 percent on?

A. I don't remember.

Q. Did you do best case scenario, worst case scenario, most likely scenario?

A. There were other scenarios prepared at that time, yes, some with lower participation rates. I think this was the highest participation rate.

Q. And do you know why Columbia chose to use the higher number rather than one of the lower projections?

A. No.

Q. Who at Columbia, if anyone, can answer that question for me?

A. I don't know.

Q. So then when I look at line 28, the savings there are a direct correlation to the participation level; correct?

A. That's correct.

Q. So if the Choice participation level was lower than what's projected here, then you would assume that the savings number would also be lower.

A. That's correct.

Q. Did any of the projections that you did ever contemplate there might be a loss to Choice customers from participating in Choice versus being on the GCR?

A. No.

Q. Do you know if prior to 2003 there were any years where Columbia Choice customers through the course of a calendar year lost money instead of saving money under the Choice program?

A. I think that question should be addressed to Ms. Bauer.

Q. There's a line 29, Net GCR Savings. Can you explain to me what Net GCR Savings was supposed to represent?

A. Net GCR Savings represents the savings after the consideration is given to payment of the

surcharge by the Choice customer.
Q. Which surcharge are you referring to?
A. I'm sorry, the surcharge up on line 22.
Q. So the Choice customers would pay the 3 cents, 3-1/2 or 5 cents, and that would result in a GCR savings of $11 million then for year 2005.
A. Maybe you should restate that.
Q. Okay. On line 22 you list the 3, 3-1/2 and 5 cents under 2005. It has a number 5.3 million. Why don't you tell me exactly what the 5.3 million is?
A. That represents revenues from all customers eligible to participate in the Choice program.
Q. Which would be all residential customers except for customers that were behind on payments; right?
A. Any customer that receives sales, service or participating in the Choice program, all customers eligible to participate.
Q. That would include commercial customers?
A. That's correct.
Q. How does that relate to the 11 million on line 29?

A. The 11 million on line 29 is the net GCR savings.

Q. Can you explain to me how GCR customers saved money?

A. Yes.

Q. Okay.

A. During the period 1997 through 2004, Columbia was able to terminate certain contracts which resulted in a reduction in capacity cost of approximately $30 million. That number resulted in a savings to GCR customers of approximately 20 cents per MCF. That being offset by 3-1/2 cents resulted in a net savings of about 17 percent per MCF.

Q. To the extent that Columbia was able to achieve those savings, it was because you were reducing demand with your pipelines; is that correct?

A. That's correct.

Q. Was it generally with your affiliate pipeline, Columbia Gas Transmission or TCO?

A. That question will have to be answered by Mr. Anderson.

Q. To the extent there were reductions with the pipeline contracts, were those just ratchet provisions built into the contract?

A. That question should be addressed to Mr. Anderson.

Q. So you don't know if that's anything that Columbia negotiated above and beyond what was in the original term of the contract.

A. No.

Q. Now, line 31 says Total Customer Benefits. What does Total Customer Benefits mean?

A. It's the aggregate of the net Choice savings, GCR savings, base rate freeze savings, offset by the funding that you see on line 26.

Q. Okay. And that would result then in the net benefit on line 32.

A. That's correct.

Q. And that net benefit is for all Choice eligible customers, not just residential.

A. That's correct.

Q. But residential would be a great bulk of the Choice eligible customers.

A. Yes.

Q. So to the extent that I look at Attachment A, that $301 million documents the net benefit number. That's the number that would have been used to make an argument for the benefits that were available as a result of the 2003 stipulation; correct?

A. No.

Q. No.

A. That was a -- this was a proposal put forth to the collaborative, to those who signed the stipulation, 2003 stipulation. This never became a reality.

Q. What was the intent behind Attachment A when it was presented to the collaborative? Was it intended to show the net benefits of doing a stipulation that was being proposed at the time?

A. Yes.

Q. Now, is there anywhere on this page where it lists a similar type of net benefit for the company?

A. Line 26, total funding.

Q. So line 26, 192 million, that's what you projected the company to achieve in the way of benefits over the six-year period.

A. Yes.

Q. And that total funding number would include the company's share of off-system sales and capacity-release revenues in excess of the stranded

costs; correct?
THE WITNESS: Could you read that back, please?
(Question read.).
A. In the proposal, yes.
Q. On page 2-9 of the audit report, the auditor talks about demand curves that are used for Choice and GCR customers. Are you familiar with that?
A. Somewhat.
Q. Or is this an area for Ms. Bauer?
A. This is an area for Ms. Bauer.
Q. Okay. I wasn't sure.
You are familiar with off-system sales revenues and capacity release transaction revenues; correct?
A. Yes.
Q. When the company enters into an off-system sales transaction or capacity release transaction, how are those revenues accounted for? Does it account the same month you make the transaction, the month you receive the revenues, or some other accounting that gets used?
A. It depends on the type of transaction.

Q. Let's break it down then. The first would be for a traditional off-system sales, are the revenues reported?
A. Current month.
Q. The month the deal was made?
A. The month the deal was made.
Q. And for a park transaction.
A. It's accrued over the life of the transaction, equally.
Q. Okay. How about for a loan transaction?
A. It's all accrued over the life of transaction equally.
Q. And an exchange transaction.
A. Same.
Q. Over the life of --
A. Over the life of the transaction.
Q. How about a capacity release transaction?
A. It's accrued as each month. In other words, if we release capacity for a month, we put the revenues from that capacity in that month. If the capacity is released for 12 months, we would put 1/12 of those revenues in each month.
Q. Are there any secondary activities you earn revenue from other than those discussed?

A. No; none that I can think of.
Q. Okay. Are you familiar with the NYMEX or New York Mercantile Exchange?
A. Yes.
Q. And you are familiar with Columbia's GCR over the years; correct?
A. Yes.
Q. In fact, the Columbia GCR is one of your main responsibilities.
A. It is one of my responsibilities, yes.
Q. If I were to look at the Columbia GCR and contrast with the NYMEX price, there would be a differential between the two numbers.
A. That's correct.
Q. What would generally constitute the makeup of differential between the NYMEX and the Columbia GCR for a given month?
A. Primarily shrinkage, transportation to the city gate.
Q. Okay. Let's define the two. When you talk about shrinkage, you're talking about what Columbia of Ohio pays to pipelines to transport gas from the production area up to your city gate; correct?

A. The gas retained by pipelines to transport during their transportation of gas to the city gate.

Q. Whatever they retained in the way of shrinkage is set forth in their tariffs; correct?

A. Right.

Q. The other component you indicated was transportation costs.

A. That's correct.

Q. And that would be the transportation costs that an upstream pipeline would charge you to take the gas from the production area to your city gate; is that correct?

A. Yes.

Q. And that's generally done under firm transportation contracts.

A. Yes.

Q. Do you use any other type of transportation services?

A. Not that I'm aware of. I'll defer that to Mr. Phelps.

Q. If I were to take a monthly GCR and take the volumes of gas that you transport on each pipeline, I could take the transportation rate listed in the tariff and the shrinkage rate listed in the tariff, and I would able to calculate the difference between the NYMEX price and GCR price.

A. No.

Q. What am I missing?

A. You are missing the fact we price storage based on a weighted cost per year of gas, per calendar year. You're also missing the impacts of certain hedges paid by Mr. Phelps.

Q. Those would be separate line items listed in the GCR filing.

A. Storage pricing rate is set out separately in the GCR filing. The impact of hedges itself is rolled into the overall pricing of the flowing supply of volumes.

Q. But hedging would refer to the commodity price, wouldn't have anything to do with the transportation costs; correct?

A. The rate I get from Mr. Phelps is the rate at the city gate.

Q. The rate you get from Mr. Phelps is the consolidated commodity and transportation charge?

A. For his hedge volumes, yes.

Q. Are you familiar with how the company estimates customer demand?

A. No.

Q. Is that Ms. Bauer?

A. No.

Q. Who is that?

A. I'm not sure.

MR. SERIO: Give me a couple minutes. You may have had others answer your questions already.

(Discussion off record.)

Q. (By Mr. Serio) Mr. Martin, you indicated Attachment A of OCC Deposition Exhibit 1 was just one of many proposals that Columbia put forth.

A. Yes.

Q. Was this the last proposal, do you know? Were there others that followed this one?

A. I don't know.

Q. How would I determine what the last proposal was that was the basis for the final agreement that resulted in the 2003 stipulation?

A. I would suggest you do a comparison between what the company filed in the stipulation with the documents you may have available.

Q. When you're saying what the company

filed, you're talking about the initial filing Mr. Seiple referenced this morning.

A. I think it was made October 3, 2004 in Case No. 94-987 --

MR. SEIPLE: It was October 9, 2003.

THE WITNESS: I'm sorry. Thanks, Steve.

A. Yes, to answer your question.

Q. Could I look at the October 9 filing and compare the assumptions made in that with the assumptions in this sheet to see if there was one that superseded Attachment A; is that correct?

A. That's correct.

Q. To the extent the figures in the October 9, 2003 filings were the same, then the assumption would be that Attachment A was the assumptions that were built into the 2003 stipulation.

A. I don't think the 2003 stipulation really had any assumptions built into it necessarily.

Q. So even though the company did all these projections, none of these projections were built into the 2003 stipulation; is that what you're saying?

A. I'm saying various parties to the

stipulation used them as a tool to measure the impact of the stipulation itself.

Q. And this is how Columbia also evaluated the 2003 stipulation; correct?

A. Yes; but not necessarily based on that particular document that you have in your hand.

Q. What other factors would have gone into evaluating the 2003 stip other than Attachment A or its surrogate, if the October 9 filing has a different sheet than this one.

A. Certainly Choice participation rates, roll-out of Choice, how fast it rolled out, whether or not marketers were to take capacity at the end of the stipulation, which was April 1 through October 31, 2010, those particular type things.

Q. To the extent that the Choice participation levels have not achieved those that were projected on line 1 of Attachment A, does that mean -- how does the company interpret the fact that we have not achieved those participation levels?

MR. SEIPLE: Joe, can you explain what you mean by "interpret"?

THE WITNESS: I was going to ask, could you clarify the question?

Q. Well, the Choice participation numbers on line 1 are a company projection. I think you said earlier it was a best case scenario.

A. No, I did not say that.

Q. Okay. You said it was based on Senate Bill 3, what would happen after aggregation went into effect; correct?

A. I said it was what we believed were the maximum participation rates we might experience at that point in time under, I believe it was, House Bill 9.

Q. By "maximum participation rate," you're assuming that's as great as a number would have gotten if there were just customers that wouldn't participate in Choice just because they didn't want to.

A. Yes, that's correct.

Q. Has the company done any analysis to determine why they haven't been able to achieve numbers that come close to those maximum participation levels?

A. Not that I'm aware of.

Q. That would be Ms. Bauer's area of expertise?

A. I don't know.

Q. A couple other lines I want to make sure I understand. Line 2, the Choice Program Costs, are those, for lack of a better term, is that stranded cost equivalent?

A. That's the cost -- I would not term it stranded costs. That the costs that are related to the provision of service to customers participating in the Choice program; in other words, it's capacity costs.

Q. Would that be the 25 percent that marketers did not have to take of capacity?

A. No; that's all costs.

Q. That's all costs. So the 25 percent that Choice marketers don't have to take, is that built into the Choice program costs or a subpart of that?

A. It's -- line 3 represents all demand capacity costs related to the provision of service to Choice program customers.

MR. SEIPLE: I think you might have misspoke. Did you mean line 2 instead of 3?

A. I did misstate, line 2, I'm sorry.

Q. Line 2 represents all demand-related costs.

A. That's correct.

Q. Okay. If a Choice marketer signs up a customer, the Choice marketer has to take 75 percent of the fixed demand costs associated with that customer; correct?

A. At a minimum, 75 percent.

Q. At a minimum. And that 75 percent is part of the Choice program costs.

A. That's correct.

Q. So when you're supplying the revenues from off-system sales and capacity release transactions, do I take those revenues and subtract them from the 125.5, or is there a different number that I subtract those revenues from to determine if the off-system sales and capacity-release revenues covered the costs they were intended to cover?

A. Would you repeat that question please? I'm sorry.

Q. It's my understanding that you take the revenues from off-system sales and capacity release transactions and you get a total revenue number, and that number -- you subtract from that number the stranded costs associated with Choice, and that will leave a net amount, and the net amount would be shared. What I'm trying to get at, what's the number that is subtracted from the off-system sales and capacity-release transaction revenues? Is it one of the lines on this sheet?

A. First of all, the transmission capacity costs, that means after consideration is given to revenues received from marketers after balancing services and assignment of capacity, net transmission costs, which are equivalent to the total Choice program capacity costs, less balancing service revenues received from participating marketers, less capacity-release revenues being received, again, from those same Choice participating marketers, resulting in what's called net transition capacity costs.

If there's a balance out there, a funding balance out there in the transition pool, that balance is used to offset that capacity cost.

Q. If you look at Attachment A, the total funding would be line 23; correct?

A. Attachment A, again, is not -- is not consistent with the 2003 stipulation. It was simply a proposal that was put out there before the collaborative. The treatment of the items on this particular sheet is not necessarily consistent with how the funding works under the 2003 stipulation.

Q. Okay. I understand that. I can go back later on and compare this to what's in the stipulation, but I don't have that one in front of me right now. So for purposes of understanding on this sheet, I take line 23, Total Funding Sources. I subtract line 10, Final Net Choice Program Costs.

A. Yes.

Q. And then what's left would be the amount that would have been shared between Columbia and customers.

A. No. For sharing to take place under this particular proposal, you would have to have generated off-system sales and capacity-release revenues in excess of $35 million. In no case on this particular document did that ever occur.

Q. You just said you would have to have -- I see. Line 14 would have to exceed $35 million for that to work.

A. That's correct.

Q. All right. That's fine. I understand that. Now, that 35 million that was projected in the document, the actual 2003 stipulation actually uses $25 million instead of $35 million; is that correct?

A. Yes, that's correct.
Q. So if everything else on Attachment A was the same, and as I look at 2005, I would take line 23 and subtract line 10, and the difference would be what would be shared between Columbia and the GCR.
A. No.
Q. And it's no because?
A. It's no because it's not the way it works.
Q. And the way it works is that you take the program costs, you compare that to the revenues, and the difference is applied against the $25 million threshold; right?
A. Please repeat that please.
(Question read.)
A. That's inconsistent with how -- that's not how this sharing mechanism works, no.
Q. So what you're basically telling me is the way that the auditor described it in ES-7 of the MP audit report is not consistent with how the company understands the 2003 stipulation.
A. The way the auditor explains it assumes there remains no transmission capacity costs left to fund the net transition capacity costs dollars.

Q. You're saying that's not true.
A. That's not true.
Q. So the auditor is making an assumption in his analysis here that you do not believe is correct.
A. Can you say that another way?
Q. Sure.
A. The auditor assumes that there is no transmission capacity costs pool left to fund any net transition capacity costs.
Q. You are saying there is?
A. There is at this time, yes.
Q. And how much is that at this time? Or where can I find it if you can't recall offhand?
MR. SEIPLE: Did not you ask that in a data request?
THE WITNESS: It was my last set of requests, yes, as of October 31, 2004.
MR. SERIO: Okay. I think that's all I have. Thank you, Mr. Martin.
THE WITNESS: Thank you.
(Signature not waived.)
(Thereupon, the deposition concluded at 3:55 p.m.)

\- - -

State of Ohio :

: SS:

County of ____________________ :

I, Larry Martin, do hereby certify that I have read the foregoing transcript of my deposition given on Tuesday, October 16, 2006; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

____

Larry Martin

I do hereby certify that the foregoing transcript of the deposition of Larry Martin was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he signed the same in my presence on the ________ day of ______________________, 2006.

____

Notary Public

My commission expires _________________, ________.

- - -

CERTIFICATE

State of Ohio :
: SS:
County of Franklin :

I, Rosemary F. Anderson, Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named Larry Martin was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any attorney or counsel employed by the parties, or financially interested in the action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 23rd day of October, 2005.

____

Rosemary F. Anderson,
Professional Reporter, and
Notary Public in and for the
State of Ohio.

My commission expires April 5, 2009.
(RFA-6916)

\- - -

State of Ohio :
: SS:
County of Franklin :

I, Larry Martin, do hereby certify that I have read the foregoing transcript of my deposition given on Tuesday, October 16, 2006; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

Larry Martin

Larry Martin

I do hereby certify that the foregoing transcript of the deposition of Larry Martin was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he signed the same in my presence on the 26th day of October, 2006.

Sharon Lee Booth

Notary Public

My commission expires November 9, 2007.

\- - -

NOTARIAL SEAL STATE OF OHIO

SHARON LEE BOOTH
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES 11-09-07

Errata Sheet
For Deposition of Larry Martin
Taken on October 17, 2006

Page and Line No.	Correction	Reason for Change
Page 1	Change "October 16" to "October 17"	Correction. The deposition was taken on October 17, 2006.
Page 16, Line 18	Eliminate the comma between "sales" and "service"	Correction. As written it implies sales and service are different services being provided by Columbia. "Sales service" is type of service being provided by Columbia.
Page 17, Line 13	Change "percent" to "cents".	Correction.
Page 21, Line 18	Insert the word "earned" between "as" and "each".	Clarification.
Page 31, Line 5	Change "transmission" to "net transition".	Correction and clarification. The word used was "transition" rather than "transmission". The word "net" should be inserted for clarification purposes.
Page 31, Line 8	Change "transmission" to "transition".	Correction. The word used was "transition" rather than "transmission".
Page 33, Line 23	Change "transmission" to "transition"	Correction. The word used was "transition" rather than "transmission".
Page 33, Line 23	Insert the word "pool" between "costs" and "left".	Clarification.
Page 34, Line 8	Change "transmission" to "transition"	Correction. The word used was "transition" rather than "transmission".

OCC Deposition
Exhibit No. 1

15

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Amend Filed Tariffs to Increase the Rates and Charges for Gas Service.	)	Case No. 94-987-GA-AIR
In the Matter of the Application of Columbia Gas of Ohio, Inc. to Establish the Columbia Customer Choice[SM] Program.	)	Case No. 96-1113-GA-ATA
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. 98-222-GA-GCR
Application of Columbia Gas of Ohio, Inc. to Revise its Tariffs to Establish a New Gas Transfer Service.	)	Case No. 03-1459-GA-ATA

REPLY COMMENTS OF THE OFFICE OF THE OHIO CONSUMERS' COUNSEL REGARDING COLUMBIA GAS OF OHIO'S OCTOBER 9, 2003 STIPULATION AND RECOMMENDATION

Introduction

The Office of the Ohio Consumers' Counsel ("OCC") hereby submits these reply comments pursuant to the attorney examiner's entry of November 13, 2003. Herein, the OCC responds to the comments filed December 8, 2003 regarding Columbia Gas of Ohio, Inc.'s ("Columbia") Stipulation and Recommendation filed in the above-captioned dockets on October 9, 2003. The OCC's failure to respond herein to any comment does not necessarily mean that the OCC accepts the position taken. With respect to any of the issues raised by the stipulation, the OCC respectfully refers the Commission to the OCC's initial comments filed in these dockets on December 8, 2003, which comments are hereby incorporated by reference.

A. The Commission must reject the stipulation and exercise its statutory authority to determine the reasonableness of Columbia's pipeline capacity contracting decisions in gas cost recovery proceedings.

While Columbia stresses the reliability that it claims will result from the stipulation, the issue presented by the stipulation is whether Columbia's pipeline capacity contracting levels are far in excess of what is actually required to assure reliability. Pursuant to the stipulation, Columbia will renew its contracts with interstate pipelines, including its own NiSource affiliate pipelines, to provide Columbia the capacity to serve as much as 100% of its core market customers, including choice customers. The management/performance auditor in Columbia's current audit proceeding questions whether Columbia's capacity contracting decisions are reasonable, realistic and consistent with Columbia's experience under the choice program. *Columbia Gas of Ohio, Inc.*, Management and Performance Audit, Case No. 02-221-GA-GCR at 4-47-49.

Columbia also stresses the certainty that it claims will result from the stipulation, but the issue is whether Columbia's pipeline capacity contracting will continue to escape regulatory oversight. Columbia Comments at 6. To the extent that the certainty Columbia seeks results in a lack of regulatory oversight of its capacity contracting decisions, such certainty is not in the public interest.

The stipulation forecloses the Commission's authority to review Columbia's pipeline capacity contracting for the entire six-year term of the stipulation. As the OCC argued in its initial comments, the Commission should not forgo for the stipulation's entire six-year term its statutory authority to review Columbia's capacity contracting decisions in the context of the gas cost recovery ("GCR") audit proceedings. Columbia itself points to the problems that result when regulators are not given needed levels of oversight authority. Columbia Comments at 6-7. Given that the stipulation denies the Commission the level of oversight authority that the General Assembly saw fit to confer upon it, the Commission should reject the stipulation and maintain its oversight authority.

Columbia's reference to the "unstable and rapidly changing environment" of natural gas markets should also cast doubt on the wisdom of pre-approving Columbia's pipeline capacity contracting for the entire six-year term of the stipulation. Columbia Comments at 7. If gas markets continue to experience rapid change and increasing volatility throughout the entire six-year term of the stipulation, the Commission will not want to have pre-approved so far out into the future Columbia's pipeline capacity contracting decisions. If governmental aggregation pursuant to Sub. H. B. 9 results in choice participation rates as high as 82% by the end of calendar year 2007 as Columbia itself is projecting, again, the Commission will not want to have pre-approved Columbia's pipeline capacity contracting decisions for as far into the future as the stipulation provides. See OCC Attachment A at 3, Columbia's response to OCC Interrogatory No. 3.

The Commission Staff warns the Commission not to be locked into Columbia's proposal for such an extended period of time. Staff Comments at 2. Given the questionable and controversial nature of Columbia's proposal for re-contracting to serve 100% of its core market customers, the lack of Commission oversight is not reasonable. The length of the stipulation is too long a period of time to remove such an important issue as the level of capacity contracting from the Commission's purview. The Commission should reject the proposed stipulation in favor of a thorough regulatory review of this issue in GCR audit proceedings.

B. The stipulation harms ratepayers.

While Columbia itself makes little or no effort to support the various stipulated funding provisions, Interstate Gas Supply, Inc. ("IGS") and WPS Energy Services, Inc., dba FSG Energy Services ("WPS") fill the void by arguing in support of several of Columbia's stipulated funding provisions. IGS and WPS argue that the stipulation makes Columbia responsible and at risk for certain choice program costs. IGS and WPS Comments at 11.

Columbia's own analysis of the funding provisions shows that the actual risk to Columbia is negligible. Columbia projects the funding from the stipulation's various sources to exceed choice program costs by $68 million even before adding funding from post-in-service carrying charges ("PISCC") and other deferrals totaling an additional $124.2 million more. See OCC Attachment A at 2, Columbia's response to OCC Interrogatory No. 3. In other words, the funding from the stipulation's various sources is projected to exceed choice program costs by $68 million **and in addition to that excess $68 million, Columbia will accumulate PISCC and other deferrals totaling another $124.2 million** during the term of the stipulation. Therefore, rather than putting Columbia at risk for choice program costs, the stipulation is designed to over-fund such costs.

Moreover, with regard to the excess $68 million that the stipulation is designed to generate for Columbia, $46.4 million is provided by direct contributions from ratepayers in the form of the migration cost rider. Id. Even if there were no such direct contributions from ratepayers through the rider, the stipulation would still over-fund Columbia's projected choice costs by $21.6 million. Thus, even if the Commission were to reject the cost migration rider, the stipulation would still over-fund Columbia's projected choice program costs by $21.6 million plus the $124.2 million in PISCC and other deferrals. Therefore, given Columbia's own analysis, rather than putting Columbia at risk, the stipulation is designed to over-compensate Columbia for its projected choice program costs.

The over-funding of choice program costs is particularly improper when, as the Staff points out, Columbia's stipulated provision for re-contracting pipeline capacity actually creates stranded costs. Staff Comments at 2. With the October 2004 expiration of a significant amount of Columbia's capacity contracts, Columbia has the opportunity to shape its capacity portfolio to eliminate stranded costs. According to the Staff, the stipulation's provision for re-contracting for capacity to serve 100% (reduced to 95% after October 1, 2005) of its core market customers is unreasonable given the current levels of migration experienced by Columbia. Staff Comments at 2. The Staff believes that Columbia's decision to re-contract at the stipulated levels is the driving force behind the creation of the stipulation's funding sources. Re-contracting at a level that more realistically reflects the impact of the choice program would eliminate the need for these funding sources. Staff Comments at 3.

With regard to other purported benefits of the stipulation, the OCC does not agree with Columbia that customers will benefit from the stipulation's base rate freeze. Columbia Comments at 7. As the Staff points out, the PISCC and other deferrals render the base rate freeze provision worthless to customers. Staff Comments at 5. Even though Columbia would not file a base rate case until October 31, 2010, that rate case would include carrying charges on the plant investments (including the unamortized balance of accrued PISCC) and the unamortized balance of deferred depreciation and property tax expense from the stipulated period. Columbia would not forgo recovery of any of these costs, but merely recover them at a later time. PISCC compensates Columbia for the delay in cost recovery. In addition, the numerous exceptions to the rate freeze, especially the stipulation's failure to preclude automatic cost adjustments pursuant to R.C. 4929.11, also render the stipulated rate freeze of dubious value to ratepayers. Staff Comments at 6-7.

Columbia also claims incorrectly that the stipulation will result in reduced demand rates for GCR customers. The 2003 stipulation itself creates no such result. Rather, the reduced demand rates result from the termination of the 1999 Columbia stipulation. *Once the 1999 stipulation terminates, Columbia will no longer be able to* calculate the GCR based on the provisions of that stipulation. The termination of the 1999 stipulation is the sole factor that reduces demand rates for GCR customers.

Columbia also implies that the stipulation brings about enhanced capital program investment in line extensions, economic development, pipeline safety and infrastructure reliability. Columbia Comments at 6. The stipulation's impact on such matters is actually nothing more than its provisions for the deferral of PISCC and all depreciation and property tax expense on all property on which PISCC is calculated. Stipulation at 21. As the OCC stated in its initial comments, these deferrals will create, without any demonstration of any necessity for such deferrals, regulatory assets that Columbia will seek to recover from ratepayers at some future date. These deferrals will inflate Columbia's earnings during the years of the stipulation and increase the revenue requirement at the time of any subsequent base rate case. As the Staff of the Commission correctly points out in its comments, the PISCC provisions allow Columbia an opportunity to recover expenses in a future proceeding that, absent the approval of the stipulation, Columbia would not be able to recover. Staff Comments at 6.

Finally, Columbia also points to the continued customer benefits from the choice program. While consumers have experienced savings from participation in the program, the management/performance auditor in Columbia's current GCR audit proceeding casts doubt that customer benefits from the choice program have recently been as robust as Columbia is projecting such savings to be during the term of the stipulation. Columbia Comments at 7. Columbia has estimated that customer savings from choice may be as high as $50 million to $63 million per year during the six-year term of the stipulation. See OCC Attachment A at 2. Such estimates greatly inflate the more recent experience for customer savings under the choice program. The management/performance auditor provides total customer savings for each month from November 2000 through October 2002. Management/Performance Audit at 7-7. For an entire year from August 2001 through July 2002, the aggregate savings to customers in the choice program actually were negative. During the last year of the audit period, choice customers were disadvantaged by $64.3 million. Id. at 7-6. Therefore, Columbia's projections for customer benefits from the choice program do not reflect the recent experience of choice customers.

C. Commission approval of the stipulation is not a pre-condition necessary for the continuance of the choice program in Columbia's service areas.

The Commission should not accept the argument made by certain marketers that the choice program in Columbia's service area will suffer unless the Commission approves the stipulation. IGS and WPS state that the unknown future of Columbia's choice program is already impacting supplier business decisions and that there is reduced marketing activity in Columbia's choice program compared to the Dominion East Ohio market where ongoing competition is certain and the marketplace stable. IGS and WPS Comments at 2. IGS and WPS argue that approval of the stipulation is necessary to protect the Columbia market and that failure to approve the stipulation will result in a diminution of offers due to the uncertainty surrounding the post-November 1, 2004 period.

While the stipulation may act to give the marketers information about how the Columbia choice program will operate during the six-year term of the stipulation, the marketers cannot contend that there is no certainty in the absence of the stipulation. Columbia already has on file with the Commission the tariffs that prescribe the operation of the choice program in its service areas. Columbia also has pending an application to conform its tariffs to the requirements of Sub. H.B. 9 and the Commission's administrative rules adopted to implement the provisions of Sub. H.B. 9. There is no reason to believe that the Commission's rules and Columbia's tariffs are inadequate to provide marketers with the information they need to operate in Columbia's service areas. In addition, there is no comparable stipulation in the Dominion East Ohio service areas that would lend credence to the notion that a stipulation such as Columbia's is necessary for the success of the choice program.

Columbia cannot unilaterally terminate the choice program. Even if Columbia attempted to begin the process to end the choice program in its service areas, those seeking choice are not without remedy. Any effort on Columbia's part to withdraw its Sub. H.B. 9 tariffs would be met with certain opposition by various interested parties. Moreover, there are provisions in Sub. H.B. 9 that allow petitions to be filed with the Commission to require a natural gas company with fifteen thousand or more customers to provide distribution service. R.C. 4929.29. Therefore, it is not true that the choice program is dependent upon Commission approval of the stipulation.

Conclusion

The stipulation is a bad deal for residential ratepayers. It forecloses Commission review of Columbia's pipeline capacity contracting for the entire six-year term of the stipulation. It harms ratepayers by pre-approving funding sources and revenues for Columbia without the statutory procedures for the approval of such sources and revenues. It over-funds Columbia's own projections for costs due to customer migration. It allows for the creation of new regulatory assets that will cause Columbia's revenue requirement to increase at the time of Columbia's next base rate filing.

Thus, as the OCC stated in its initial comments, the Columbia stipulation fails the criteria set forth by the Commission and approved by the Supreme Court for the approval of settlements. The stipulation violates numerous important regulatory principles and practices; it harms ratepayers and is not in the public interest. Therefore, the Commission cannot approve the stipulation.

Respectfully submitted,

Eric B. Stephens
Deputy Consumers' Counsel

Colleen Mooney
Colleen L. Mooney, Trial Counsel
Larry Sauer
Assistant Consumers' Counsel

OHIO CONSUMERS' COUNSEL
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
(614) 466-8574 – Telephone
(614) 466-9475 – Facsimile
mooney@occ.state.oh.us

CERTIFICATE OF SERVICE

I certify that a copy of these *Reply Comments of the Ohio Consumers' Counsel* was served by first-class U.S. mail, postage prepaid, to the parties identified below, this 22nd day of December 2003.

Colleen Mooney
Colleen L. Mooney
Assistant Consumers' Counsel

PARTIES

Columbia Gas of Ohio, Inc.	Stephen B. Seiple, Esq. 200 Civic Center Drive P.O. Box 117 Columbus, Ohio 43216-0117 Ph.: (614) 460-4648 Email: sseiple@nisource.com
Dominion Retail, Inc.	Judith B. Sanders, Esq. Bell, Royer & Sanders Co., L.P.A. 52 E. Gay Street P.O. Box 1008 Columbus, Ohio 43215-3927 Ph.: (614) 228-0704 Email: jsanders@brscolaw.com
FSG Energy Services Interstate Gas Supply, Inc.	John W. Bentine, Esq. Chester, Wilcox & Saxbe, L.L.P. 65 E. State Street Suite 1000 Columbus, Ohio 43215 Ph. (614) 336-6121 Email: jbentine@cwslaw.com
Honda of America Manufacturing, Inc.	Jonathon W. Airey, Esq. Vorys, Sater, Seymour & Pease 52 E. Gay Street P.O. Box 1008 Columbus, Ohio 43216-1008 Ph.: (614) 464-6346 Email: wjairey@vssp.com
Industrial Energy Users-Ohio	Gretchen J. Hummel, Esq. McNees, Wallace & Nurick Fifth Third Center 21 East State Street, Suite 1700 Columbus, Ohio 43215-4228 Ph.: (614) 719-2841 Email: ghummel@mwncmh.com

Energy America, L.L.C. Shell Energy Service Co., L.L.C.	Janine L. Migden, Esq. Hahn, Loeser & Parks 1050 Fifth Third Center 21 East State Street Columbus, Ohio 43215 Ph. (614) 233-5120 Email: jmigden@hahnlaw.com
Waterville Gas & Oil Company	Andrew J. Sonderman, Esq. Attorney at Law LLC 690 White Tail Drive Gahanna, Ohio 43230 Ph: (614) 519-4858

PUCO Case No. 94-987-GA-AIR, *et al.*
OCC Interrogatory No. 3
Respondent: Larry W. Martin

COLUMBIA GAS OF OHIO, INC.
RESPONSE TO OCC INTERROGATORIES

Interrogatory No. 3

Referring to the Stipulation at Paragraph 9, pages 11-12:

a. What are the annual estimated amounts for "Choice Program capacity costs" as defined in Paragraph 9?

b. In determining the costs in response to Subpart (a) of this interrogatory, what are the choice participation rates assumed?

c. What are all the other assumptions used in determining the costs in response to Subpart (a) of this interrogatory?

Response:

a. See Attachment 3(a), Line (2), CHOICE Program Costs.

b. See Attachment 3(a), Line (1), CHOICE Participation.

c. See Attachment 3(b).

Assumptions:
Capacity reduction of 5% starting '06
PISCC beginning 11/1/04
Surcharge escalates as participation increases
Sharing of OSS/Cap Rel. over $35 M

30-Sep-03

Line No.		2005	2006	2007	2008	2009	2010	Total
1	CHOICE Participation	62%	67%	82%	82%	82%	82%	
		$M	$M	$M	$M	$M	$M	$M
2	CHOICE Program Costs	125.5	135.6	165.7	165.7	165.7	165.7	923.0
3	Marketer Revenues							
4	Balancing Services	39.9	43.1	55.1	55.1	55.1	55.1	
5	Capacity Assignment	41.2	44.5	52.6	52.6	52.6	52.6	
6	Increase to 75%	13.0	14.2	16.6	16.6	16.6	16.6	
7	Total Marketer Revenues	94.1	101.8	124.3	124.3	124.3	124.3	693.1
8	Net CHOICE Program Costs	31.4	33.8	41.4	41.4	41.4	41.4	230.8
9	Less: 5% Capacity Reduction	-	10.0	10.0	10.0	10.0	10.0	50.0
10	Final Net CHOICE Program Costs	31.4	23.8	31.4	31.4	31.4	31.4	180.8
11	Sharing Mechanism on OSS/Capacity Rel.							
12	Capacity Release	14.8	16.0	18.8	18.8	18.8	18.8	106.0
13	Off-System Sales	16.4	16.0	16.0	16.0	16.0	16.0	96.4
14	Total OSS / Capacity Release	31.2	32.0	34.8	34.8	34.8	34.8	202.4
15	OSS/Cap Release Shared over $35 M	-	-	-	-	-	-	-
16	50% COH if CHOICE Part. < 60%							
17	60% COH if Part. 60% - 69%	-	-					
18	70% COH if Part. 70% - 79%							
19	80% COH if Part. >= 80%			-	-	-	-	-
20	Funding Sources							
21	Capacity Release + OSS after sharing	31.2	32.0	34.8	34.8	34.8	34.8	202.4
22	Surcharge Revenue = $0.03, $0.035, $0.05	5.3	6.1	8.8	8.8	8.8	8.8	46.4
23	Total Funding Sources	36.5	38.1	43.6	43.6	43.6	43.6	248.8
24	Net CHOICE Program	5.1	14.3	12.2	12.2	12.2	12.2	68.0
25	PISCC	2.9	9.8	17.0	24.2	31.6	38.7	124.2
26	**Total Funding**	**8.0**	**24.1**	**29.2**	**36.4**	**43.8**	**50.9**	**192.2**
27	Customer Benefits	2005	2006	2007	2008	2009	2010	Total
28	Net CHOICE SAVINGS	50	53	63	63	63	63	353.0
29	Net GCR Savings	11	10	5	5	5	5	39.7
30	Base Rate Freeze	17	17	17	17	17	17	102.0
31	Total Customer Benefits	78	80	84	84	84	84	494.0
32	**Net Benefit**	**69.9**	**55.4**	**54.9**	**47.7**	**40.3**	**33.2**	**301.2**

Attachment 3 (b)

Major Assumptions Used In Development
Of Columbia's Response to OCC Interrogatory No. 3(a)

- The implementation of the opt-out provision of HB 9 by various governmental entities will result in a significant increase in Columbia's CHOICE Program participation rates.
- The implementation of the HB 9 opt-out provision by these entities will result in a CHOICE Program participation rate of 62% by October 31, 2005.
- CHOICE Program participation rates will increase an additional 5% during the calendar year 2006 as more municipalities elect to participate in the program.
- There will be a major increase in Columbia's CHOICE program participation rates during Calendar Year 2007 as the program grows in popularity. This will result a decision by major municipalities to become Natural Gas Aggregators and will result in an overall participation rate of 82% by the end of the calendar year 2007 which will remain constant for the balance of the term of the Stipulation.
- COH contracts for peak day capacity equal to 100% of the demand of core market and GTS standby customers for the first year, 2004-05.
- This peak day capacity contract level will be reduced to 95% of the demand of core market and GTS standby customers during the 2005-2006 gas year and remain constant for the balance of the term of the Stipulation.
- COH contracts for peak day capacity based on a design temperature with a 10% risk level.
- COH serves as the Provider of Last Resort.
- Total capacity costs are calculated based on projected contracted capacity and March 2003 pipeline rates.
- COH contracts for 70 MDth of Tennessee FT capacity and 433 MDth of Gulf FTS-1 capacity.
- COH contracts for either ANR or Panhandle capacity sufficient to meet operational needs on the west side of Toledo.