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Columbia Exhibit No. ______.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01,and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	))))))))	Case No. ~~2008~~ 08-1344-GA-EXM

PREPARED DIRECT TESTIMONY OF
SCOTT D. PHELPS
ON BEHALF OF COLUMBIA GAS OF OHIO, INC.

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March 26, 2009

PREPARED DIRECT TESTIMONY OF SCOTT D. PHELPS

Q: Please state your name and business address.

A: My name is Scott D. Phelps and my business address is 200 Civic Center Drive, Columbus, Ohio 43215.

Q. By whom are you employed and what is your current job position?

A. I am employed by NiSource Corporate Services as the Director, Gas Management Services.

Q: Please describe your employment history?

A: In 1978, I joined Columbia Gas of Ohio, Inc. ("Columbia"), a subsidiary of Columbia Gas System, Inc. ("CGS") and now a NiSource subsidiary, as an Industrial Marketing Engineer. In that capacity, I was responsible for representing Columbia in its dealings with its industrial and large commercial customers throughout Southeastern Ohio. In 1984, I was promoted to Manager, Gas Transportation and later, to Director, Gas Transportation in the CGS distribution companies' Marketing Department in Columbus, Ohio. While in those roles, I was responsible for developing and managing the on-system transportation processes for industrial and commercial customers for the CGS distribution companies, including Columbia Gas of Ohio. In 1989, I was promoted to Director, Gas Procurement and, since that time, I have had responsibilities related largely to the procurement and delivery of natural gas required by the sales customers of Columbia and the other CGS distribution companies. More specifically, this responsibility includes the contract negotiation and purchase of all gas supply, the scheduling of the those supplies on the interstate pipeline systems, the release of interstate transportation capacity, the sale of gas products pursuant to Columbia's Off System Sales efforts, and related back office reconciliation, payment, and billing processes related to these transactions.

Q: **What is your educational background?**

A. I received my higher education at Michigan Technological University, where I earned a Bachelor's Degree in Civil Engineering.

Q: **Have you previously testified before the Public Utilities Commission of Ohio ("Commission") or any other regulatory commissions?**

A: Yes, I have previously testified before the Commission. I have also testified before state public utility regulatory commissions in Kentucky, Pennsylvania, Maryland, and Virginia.

Q: **What is the purpose of your testimony in this proceeding?**

A: The purpose of my testimony is to support portions of Columbia's recent Application in Case No. 08-1344-GA-EXM ("Application"). More specifically, I will address the topics addressed by topic numbers 8, 9, 10, 11, 12, 13, 14, and 15 of Columbia's Program Outline which was filed as part of the Application. These topics include the timing of the Standard Service Offer ("SSO") Auctions, the SSO Auction Process, the SSO Price, SSO Supplier Qualifications, SSO Supplier Education, SSO Supplier Agreement, the SSO Supplier Credit Requirements, and the SSO or CHOICE Supplier Failure to Perform. These Program Outline topics are covered within the new Section VIII tariff Sheet Nos. 1

through 7. I will also describe in this testimony the changes that have been made to Columbia's Gas Price Hedging Plan, and Columbia's recommendations related to the continuation of a Columbia Off System Sales and Capacity Release incentive revenue sharing mechanism, which are addressed in the Program Outline by topic numbers 40 and 41 respectively.

Q: Before providing more detailed descriptions of the topics covered by these Program Outline topics and related Tariff Sheets, please provide a more fundamental description of the SSO Auction and how it relates to the type of gas procurement process that exists at Columbia today.

A: Columbia's Application proposes a gas supply auction process that would result in a price mechanism for Columbia's retail gas sales customers. This new gas price mechanism would replace the current Gas Cost Recovery ("GCR") mechanism. As with the GCR mechanism, the SSO process involves Columbia purchasing gas in the wholesale market to be resold to its retail customers. In this aspect, the SSO Auction is similar to the current GCR process. The differences in the two approaches are found in the price determination process, the structure of the gas purchase agreements, and in the way the cost of gas is passed to customers.

Q: At a high level, please describe Columbia's current gas procurement processes as they are applied within the current GCR mechanism.

A: In its current process, Columbia depends initially on its monthly and seasonal planning processes to guide its purchase transactions. Based on these processes, Columbia determines how best to meet sales customer demand along with associated storage injection and withdrawal requirements and sets up an appropriate purchase plan for the following month and for the applicable season. Within that plan, Columbia determines whether to flow term gas, and / or buy spot gas and, if so, whether that spot gas will be bought on a monthly basis or on a daily basis. Then, throughout the month, Columbia continually monitors actual pricing, customer demand, and storage activity against its plan and makes adjustments as needed. As a foundation for its gas purchasing activity, Columbia has signed base gas purchase agreements with dozens of potential counterparties. For its firm term contracts, Columbia conducts a request for proposals each year that typically result in firm contracts for the winter months of either December through February or November through March. As a general rule, Columbia purchases its supply at the receipt point of its firm pipeline transportation contracts. With regard to its spot gas purchases, the role of electronic trading platforms has increased dramatically in recent years such that most of Columbia's spot purchases are transacted through the Intercontinental Exchange ("ICE") web-based trading platform, where supplies are essentially placed for bid and are bought and sold in an anonymous competitive environment. In addition to these purchases of spot gas and term supplies, Columbia has managed a gas price hedging plan which, over a two year price window period, results in locking in the price for between 30% and 50% of expected gas purchases each winter period (November through March).

Q: **Please explain how Columbia's proposed SSO program would work going forward.**

A: The SSO Auction, in large part, results in highly structured asset management arrangements with four or more Suppliers. As part of the arrangement, Columbia will release most of its interstate pipeline and storage capacity to the winning bidders in the auction that will be responsible for Selling SSO supplies to Columbia at its city gate. As a result, the location at which Columbia will receive and take title to the gas will be Columbia's city gate instead of the receipt points under its interstate pipeline agreement.

One of the principle objectives of Columbia's proposed SSO design is to create a level playing field between Columbia's SSO program and Columbia's CHOICE program. As a result, both SSO and CHOICE Suppliers will deliver gas supplies to Columbia as prescribed by supply Demand Curves provided to each Supplier prior to every month. These Demand Curves represent the expected daily demand at varying temperatures of each Supplier's delivery obligation at different locations throughout Columbia's service territory. From a pricing standpoint, the SSO process will result in a monthly price of gas that will be determined by adding a monthly natural gas market price to an amount that results from bidding in the SSO Auction process. The market driven price would change each month, while the adder that results from the auction would remain fixed for a year. From a gas supply operations perspective, this essentially means that after implementation of the SSO, Columbia will need to manage its system in the same manner in which it would need to if all of its sales customers had become CHOICE customers.

Generally speaking, the impact of the SSO process on Columbia's procurement activity is that the SSO supply will replace Columbia's seasonal, monthly and daily purchase decisions that relate to its term RFP contracts, spot purchases, fixed price (hedged) purchases, and the scheduling of those supplies to the city gate.

Q: Will Columbia still monitor supply and demand on its system each day?

A: Yes, it remains just as important for Columbia to do this under the SSO process as it is under the GCR process. In the SSO process, Columbia will retain the responsibility of managing the overall balance of supply and demand on its system for all customers. Deliveries by SSO and CHOICE Suppliers based on temperature driven Demand Curves will not result in an exact match of supply and demand each day. Therefore, Columbia will need to balance the overall supply with overall demand using the tools made available to it through its proposal. These tools will include retained storage and transportation capacity assets, operational gas purchases and sales to balance the system on a daily basis, and the ability to restrict interruptible balancing service for Transportation Service customers. Therefore, though the SSO supply will replace most of Columbia's need to buy gas for its customers, there remains operational balancing and supply requirements that will result in some gas purchases by Columbia under contracts other than the SSO contracts. Details regarding the assets retained by Columbia to perform this function are provided in the testimony of Mr. Anderson.

<u>TIMING OF THE SSO AUCTION</u>

Q: In its Program Outline and its Tariffs, where does Columbia describe the timing of the SSO Auction?

A: Columbia details the timing of the Auction in topic number 8 of the Program Outline and in Section VIII, Sheet 5 of the tariff.

Q: When does Columbia intend to implement the First SSO Auction?

A: The initial SSO Auction ("First SSO Auction") would result in supply contracts for the period April 2010 through March 2011 ("the First SSO Period"). Columbia proposes to conduct the SSO Auction for the First SSO Period no later than February 16, 2010.

Q: When will SSO customer bills be impacted?

A: For customers, the First SSO Period would begin with the April 2010 billing cycle. At that time the GCR rate will be replaced by the SSO rate. The First SSO Period will conclude with the March 2011 billing cycle.

Q: In its Application, Columbia has recommended that, as preparations commence for a second auction ("Second SSO Auction"), the Commission provide Columbia with direction as to whether Columbia should conduct the Second SSO Auction or revert to the GCR mechanism. What is the purpose of this part of the proposal?

A: Columbia recognizes that by December 1, 2010, a significant amount of time will have passed and that it's possible that events or changes in the marketplace may occur which could cause the Commission to want to change its decision with regard to the move from GCR service to SSO service. At that time, Columbia will be preparing for the Second SSO Auction. This proposal to obtain direction from the Commission is to help ensure that Columbia and other involved parties do not continue effort and focus on the Second SSO Auction at that time if Commission is no longer inclined to approve the outcome of the Second SSO Auction.

Q: Assuming that by December 1, 2010, the Commission directs Columbia to proceed with plans for a Second SSO Auction, what will be the timing of that SSO Auction and Second SSO Period?

A: The Second SSO Auction would result in supply contracts for the period beginning April 2011 through March 2012 ("the Second SSO Period"). Columbia proposes to conduct the Second SSO Auction no later than February 15, 2011.

Q: When will SSO customer bills be impacted by the Second SSO Auction?

A: For customers, the Second SSO Period will begin with the April 2011 billing cycle at which time the SSO Price from the First SSO Period will be replaced by the SSO Price for the Second SSO Period. The Second SSO Period will conclude with the March 2012 billing cycle.

Q: In Columbia's Application, it states that for both Auctions, the winning bid price will be subject to the approval of the Commission following the conclusion of each Auction. How would a denial of the winning SSO Price impact the timing of the SSO Auction process?

A: If the Commission does not approve the winning SSO Price, then it is proposed that the Commission provide Columbia with direction at that time regarding whether and when a follow up Auction for the applicable SSO Period should take place, taking into account important factors such as how the date selected for the follow-up Auction will impact the processes specified in Columbia's tariff.

Q: What would occur if the Commission were to decide that a follow up Auction should not be held?

A: If the Commission were to decide that a follow up Auction should not be held, Columbia's proposal is that it continue, or revert to, providing GCR sales service for the applicable SSO Period, but that Columbia would incorporate, or continue to incorporate, as the case may be, all other changes approved by the Commission pursuant to the Application.

Q: What does Columbia propose with regard to supply processes and service offerings following the conclusion of the Second SSO Period?

A: In 2011, after the conclusion of the First SSO Period, Columbia proposes to convene the Columbia Stakeholder group to assess the results of the two SSO Auctions and operations of the First SSO Period and to hold discussions regarding the path Columbia will follow after March 2012. The discussion topics are expected to include the possibility of additional SSO Auctions, Standard Choice Offer ("SCO") Auctions, and/or other options recognized as being pertinent to the discussion as a result of experience gained to that point in time.

THE SSO AUCTION PROCESS

Q: In its Program Outline and its Tariffs, where does Columbia describe the SSO Auction process?

A: Columbia details the SSO Auction process in topic number 9 of the Program Outline and in Section VIII, Sheet 3 of the tariff.

Q: What is Columbia's overall approach to the SSO Auction?

A: Columbia's intent is to conduct an SSO Auction under which qualified natural gas suppliers are able to compete to sell gas at the city gate to Columbia for Columbia's SSO customer requirements. SSO customer demand consists of all demand requirements of Columbia customers not served by suppliers of their own choosing under either Columbia's CHOICE program or its Transportation Service program.

Q: Are Columbia's Percentage of Income Plan Customers ("PIPP") included in the SSO requirements?

A: Yes they are, because PIPP customers do not qualify to participate in the CHOICE program, their requirements will be included as part of the SSO supply requirements.

Q: What will bidders in the SSO Auction bid for?

A: Bidders in the Auction will be bidding to serve a portion of the SSO supply requirements. The total forecasted SSO supply requirements will be divided into sixteen equal portions ("Tranches"). Each Tranche awarded to a winning bidder will have the same delivery requirement as every other Tranche that is awarded. As with Columbia's CHOICE program, SSO Suppliers will be required to deliver to Columbia at the assigned Pipeline Scheduling Point ("PSP"), the quantity of gas specified by, and in accordance with, a Columbia provided Demand Curve. This Demand Curve will be calculated for the SSO Suppliers by Columbia in a manner equivalent to the manner used to provide Demand Curves to CHOICE Suppliers.

Q: Will the size of the Tranche remain fixed throughout the SSO Period?

A: No it will not remain fixed. The Tranche size is subject to change each month of the SSO Period in order to adjust to changes in Columbia's market, such that the supply requirements of all customers that are not served under either Columbia's CHOICE or Transportation Service programs are incorporated in the sum of the Tranches. For example, as customers contract into or elect out of the CHOICE program, the size of each Tranche will be adjusted. This review and adjustment will occur each month in connection with the development of Demand Curves for the SSO Suppliers.

Q: Would such changes in the Tranche size result in any change to the SSO Price paid to SSO Suppliers?

A: No. The SSO Price remains the same, regardless of such changes in Tranche size.

Q: Will there be any limit placed on the number of Tranches that one SSO Supplier will be able to win?

A: Yes, to assure the type of diversity in supply needed to promote reliability, a maximum of four Tranches will be awarded to any individual bidder or group of affiliated bidders.

Q: How will the winning bidders be determined in the proposed SSO Auction process?

A: In a manner very similar to both the Dominion East Ohio ("DEO") and the Vectren Energy Delivery of Ohio ("Vectren") SSO auctions, bidding will be for a price adjustment (the "Retail Price Adjustment") which, when added to the final settlement price of the New York Mercantile Exchange ("NYMEX") natural gas contract each month during the

SSO Period, will result in the monthly SSO Price. Columbia will use an independent auctioneer to conduct a descending clock auction, in much the same way that has occurred in the aforementioned DEO and Vectren auctions. In a descending clock auction, the auctioneer reduces the offered price throughout the auction event, while each bidder submits bids representing the quantity of units they are willing to sell at the price announced by the auctioneer. The auctioneer continues to reduce the price until the total quantity bid matches the quantity offered.

Q: When will Commission Approval of the SSO Auction results be sought?

A: Immediately following the SSO Auction, the winning Retail Price Adjustment and the names of the winning bidders will be filed with the Commission for its approval. In addition, the process of signing the SSO Supplier Agreements will take place.

Q: Will the winning bidder's names be confidential, and if so, for how long?

A: Yes, winning bidders' names are to be held in a confidential manner for a period of time to allow winning bidders to secure supplies or capacity without their intent or purpose being generally known in the marketplace. For the First SSO Auction, bidders' names will be confidential until the first day on which SSO supplies are delivered to Columbia, or until sixty (60) days after the SSO Auction, whichever occurs sooner. For the Second SSO Period auction, bidders' names will be confidential until the first day on which SSO supplies are delivered to Columbia, or until sixty (60) days after the SSO Auction, whichever occurs sooner.

Q: Will Columbia release upstream pipeline transportation and storage capacity to the winning SSO Suppliers for purposes of delivering required gas supplies into Columbia's system?

A: Yes, in the same manner that Columbia releases such capacity to CHOICE Suppliers, Columbia will release capacity to SSO Suppliers. As described in greater detail in Mr. Anderson's testimony and in topic numbers 19 through 21 of Columbia's Application, the capacity, when combined with peaking and operational supplies provided by Columbia, will meet a large percentage of the SSO Suppliers need for capacity. The initial assignment of capacity would be transacted during March 2010 or March 2011 depending on the SSO Period, to be effective April 1st of each SSO Period.

Q: Is the process used to release the upstream interstate pipeline transportation and storage capacity regulated by the Federal Energy Regulatory Commission ("FERC")?

A: Yes, the FERC has set forth rules that are to be followed by the interstate pipelines when administering the release of such capacity, for shippers like Columbia when releasing capacity, and for replacement shippers like the SSO Suppliers, when accepting the release of such capacity. It should be noted that North Coast Gas Transmission ("NCGT") is an intrastate pipeline and is therefore not subject to FERC rules. At this time however, Columbia anticipates that capacity will be released on NCGT in a manner similar to that used by the interstate pipelines.

Q: Have FERC rules related to capacity release been modified recently in ways that impact the Columbia's proposed SSO Auction?

A: Yes they have. In late 2006 an issue developed at the FERC that called into question the ability to release capacity to a party when there is a second related contractual obligation between the parties. This question of "tying" a release to a second contractual obligation, such as a gas purchase contract, impacts Columbia's proposed SSO Auction design because the release of Columbia's upstream capacity to the SSO Suppliers will be tied to the SSO Supplier Agreements. This issue would not have prevented Columbia from pursuing the SSO Auction, but it would have required Columbia to obtain specific FERC approval of the release before the SSO Auction could take place.

Q: Has this situation changed with the 2008 FERC ruling regarding capacity release?

A: Yes it has. In its recent ruling, the FERC determined that an exception would be made to the tying rule if the intent of the tying of the release to an associated supply contract was for purposes of delivering supplies required by the releaser. This part of the FERC ruling resolved the tying question, and meant that Columbia could tie the release of capacity to the obligations in the SSO Supplier Agreement. This type of arrangement is referred to by the FERC as an asset management arrangement ("AMA").

However, in the same ruling, the FERC determined that capacity released for a term one year or less would be releasable at prices in excess of the interstate pipeline's tariff rate. This would have created an additional issue for not only Columbia's SSO design, but also for its CHOICE program in that it would become possible for Columbia's SSO and CHOICE Suppliers to receive an assignment of capacity from Columbia at pipeline rates, only to have another party not related to the programs bid a higher price for the capacity once it was posted on the pipeline's web site. As part of its overall decision, however, the FERC recognized the need to allow releasing shippers to make both AMA and customer choice program releases non-biddable. Therefore, because of the SSO contractual arrangement will be an AMA, third parties will not be able to bid the price up on the capacity released to SSO Suppliers.

Q: Given the recent rule changes at the FERC, what are Columbia's conclusions as to the compliance of the SSO Auction proposal described in Columbia's Application with those rules?

A: Columbia will need to ensure that the SSO Supplier Agreement meets the specific requirements of the FERC ruling. Assuming this, Columbia believes that it's SSO capacity release process as proposed in the Application is in compliance with current FERC rules and that when the capacity is released, there will not be an ability on the part of third parties to out-bid the SSO Supplier's pre-arranged rate.

SSO PRICE

Q: In its Program Outline and its Tariffs, where does Columbia describe the SSO Price?

A: Columbia details the SSO Price in topic number 10 of the Program Outline and in Section VIII, Sheet 3 of the tariff.

Q: As described in the Program Outline, the SSO Price to be effective in each month of the SSO Period will be the sum of a market price and an adder to be determined in the SSO Auction. Please explain how that price will be applied for payments to the SSO Suppliers and for gas costs billed to Columbia's SSO customers.

A: First, the market price to be used will be the final settlement price of the New York Mercantile Exchange ("NYMEX") natural gas futures contract each month. Next, the adder, referred to as the Retail Price Adjustment, will be a dollar value resulting from the SSO Auction. These two values will be combined to create the SSO Price. It is important to note that the SSO Price will be in units of dollars per thousand cubic feet ("Mcf") while the NYMEX futures price is in dollars per Dekatherm ("Dth"). Therefore, within their bid in the SSO Auction, potential SSO Suppliers must understand that one aspect of the Retail Price Adjustment is that it effectively converts the NYMEX final settlement price from units of one million British thermal units ("MMBTU's" or "Dth") of natural gas delivered to the delivery point of the natural gas futures contract (Henry Hub in Louisiana) to one thousand cubic feet ("Mcf") of natural gas delivered to the SSO Customers' meters. The SSO Price shall be paid to the SSO Suppliers based on each SSO Supplier's pro rata share of the volumes consumed by the all SSO customers each billing cycle. The SSO Price paid by Columbia to SSO Suppliers shall represent full compensation for providing SSO supply service to Columbia during the term of the SSO Period.

Q: Will Columbia's SSO customers pay the same SSO Price to Columbia that Columbia pays to SSO Suppliers?

A: Yes, SSO customers will pay the same SSO Price that SSO Suppliers are paid, with the noteworthy clarification that Columbia's SSO customers will be invoiced in hundreds of cubic feet ("Ccfs") instead of Mcfs. It should be noted that the SSO Price is not the only charge to SSO customers by Columbia, as they will also pay Columbia the applicable Columbia Base/Distribution Rate, the CHOICE/SSO Reconciliation Rider ("CSRR") and other applicable charges.

Q: Will Columbia's PIPP customers be billed the SSO Price?

A: Yes, PIPP customers will be billed the SSO price, the same as all other SSO customers.

SSO SUPPLIER QUALIFICATIONS AND EDUCATION

Q: In its Program Outline and its Tariffs, where does Columbia describe the SSO Supplier Qualifications, including SSO Supplier Education?

A: Columbia details the SSO Supplier Qualifications in topic number 11 of the Program Outline and in Section VIII, Sheet 4 of the tariff.

Q: How will Columbia ensure that bidders in the SSO Auction are qualified to perform the important supply responsibilities that come with being an SSO Supplier?

A: It is important that potential bidders in the SSO Auction have the resources and the requisite intent to provide supply to Columbia pursuant to the SSO Supplier Agreement. For this reason, qualification requirements have been developed and included in the Program Outline as well as in the tariff. The requirements include providing information, contacts, undergoing credit evaluation, agreeing to operate pursuant to contract terms, as well as meeting deadlines and signing agreements related to the Auction itself. These requirements will include attendance at one or more educational meetings that Columbia will conduct. As part of the requirements, bidders will also be required to certify that they will maintain the confidentiality of their bidding strategy, that they will not retain any bidding advisors or consultants that are providing similar service to another bidder, whether they will bid on a stand alone basis or will bid as a part of a bidding partnership, joint venture, or other arrangement related to the SSO Auction, and whether or not they have a 10% or greater interest in another registered bidder.

Q: Why will Columbia ask potential bidders whether or not they are bidding on a stand alone basis?

A: As described earlier in my testimony, the purpose of a four Tranche limit per SSO Supplier is to promote diversification of supply sources. Diversification of supply promotes reliability by limiting the impact of a failure by an SSO Supplier. To the extent affiliates and otherwise related bidders were to accumulate more than four Tranches, that would partially defeat the purpose and intent of the four Tranche limit. Therefore, such related bidders will be limited in their bidding capability to the four Tranche limit.

<u>**SSO SUPPLIER AGREEMENT**</u>

Q: In its Program Outline and its Tariffs, where does Columbia describe the SSO Supplier Agreement?

A: Columbia describes the Supplier Agreement in topic number 13 of the Program Outline and in Section VIII, Sheets 4 and in the Definitions provided in Section VII of the tariff.

Q: Once the winning bidders are identified as a result of the SSO Auction, what type of contract will be used to define the terms and conditions of the SSO Suppliers supply obligations?

A: Once winning bidders are identified, those bidders will be provided with an SSO Supplier Agreement for their execution. The contract will contain the terms and conditions defining the seller / buyer relationship between the SSO Supplier and Columbia and will be included with the documents that the potential bidders will be required to review and understand prior to the SSO Auction. The only changes in the contract from that pre-auction version will be the inclusion of the unique information related to each SSO Supplier such as the number of Tranches won, its mailing address, and the like. There will be no negotiation of contract language with winning bidders following the SSO Auction. The SSO Supplier Agreement will consist of the standard language sponsored by the North American Energy Standards Board ("NAESB"). In addition, Columbia Special Provisions and a Transaction Confirmation will address the unique characteristics of the SSO program and will be attached to the NAESB base contract.

SSO SUPPLIER CREDIT REQUIREMENTS

Q: In its Program Outline and its Tariffs, where does Columbia describe the SSO Supplier Credit Requirements?

A: Columbia details the SSO Supplier Credit Requirements in topic number 14 of the Program Outline and in Section VIII, Sheet 6 of the tariff.

Q: You have stated that "undergoing credit evaluation" is part of the overall SSO Supplier Qualifications. Please describe the approach to credit requirements that Columbia will apply.

A: Potential bidders in the SSO Auction will be required to pre-qualify to bid on the number of Tranches that they request permission to bid on. This pre-qualification will include a creditworthiness evaluation by Columbia assessed against exposures related to 150% of the number of Tranches that the potential bidder expresses the intent to bid on. This level is required in order to allow for sufficient credit to enable an SSO Supplier to accept an increase in its Tranche volumes in the event of an SSO or CHOICE Supplier default. Columbia will review the factors that may result in credit risk exposure to ratepayers from SSO Suppliers on an ongoing basis. Credit risk factors include but are not limited to SSO Balancing Charges, Local Gas Purchase Charges, Aggregation Charges, capacity release charges payable to pipelines, replacement gas supply costs related to default by an SSO Supplier, fees caused by over or under deliveries by SSO Supplier, and penalties or fees billed to Columbia that were caused by over or under deliveries by SSO Supplier. Columbia's process will recognize that SSO Suppliers shall grant Columbia a perfected first priority security interest in amounts related to SSO customer Payments that are owed the SSO Supplier by Columbia and that Columbia shall have the right to offset such collateral against any obligations or financial responsibilities that an SSO Supplier may have that are due Columbia, as stipulated in the SSO Supplier's Agreements with Columbia and in Columbia's tariff in the event of a default by the SSO Supplier.

Q: The credit process that you just described helps to mitigate risks to Columbia and to Columbia's customers from a defaulting SSO Supplier. Are there any other credit related processes that Columbia has proposed related to the SSO Suppliers?

A: In Columbia's proposal, non-defaulting SSO Suppliers may be required to serve the SSO supply requirements of a defaulting SSO Supplier. To help mitigate this risk to the non-defaulting SSO Suppliers, a process is proposed in the Application that would help mitigate those risks.

Q: How would the proposed process work?

A: Immediately following the SSO Auction, and in conjunction with the signing of an SSO Supplier Agreement, each winning bidder shall provide Columbia with a cash deposit in the amount of fifty cents multiplied by the forecasted annual SSO delivery requirements in Mcfs of the Tranches won by the bidder. This financial security shall be held by Columbia exclusively for the benefit of SSO Suppliers who are called upon to serve the SSO supply requirements of a defaulting SSO Supplier. Specifically, in the event of a default, and reassignment of the defaulting SSO Supplier's SSO supply requirements, the defaulting SSO Supplier's cash deposit shall be allocated to non-defaulting SSO Suppliers in accordance with the percentage of supply requirements that each non-defaulting SSO Supplier is allocated in the process described as a result of the default.

<u>**SSO OR CHOICE SUPPLIER FAILURE TO PERFORM**</u>

Q: In its Program Outline and Tariff, where does Columbia describe the process to deal with a defaulting Supplier?

A: Columbia details the process to be implemented at the time of default by a Supplier in topic number 15 of the Program Outline and in Section VIII, Sheet 7 of the tariff.

Q: Why is it important for Columbia to propose a process within its Application to deal with a potential default by one or more CHOICE or SSO Suppliers?

A: Since the SSO process results in essentially all of Columbia's sales market being either allocated to SSO Suppliers or served by CHOICE Suppliers, it's critical that all parties understand the process of dealing with defaults in either the CHOICE and SSO markets at the outset of the program. In this way, we can prevent confusion at the time of a failure, so that reliability of supply is assured, and so that bidders in the SSO are better prepared to assess and manage the related risk.

Q: How does Columbia's proposal deal with a Supplier default?

A: Initially upon the occurrence of a default by a CHOICE or SSO Supplier, Columbia will assume the role of assuring that supply is adequate to serve the customers or Tranches that were previously supplied by the defaulting Supplier.

A defaulting CHOICE or SSO Supplier must cure the default within five days notice by Columbia. If the Supplier does not cure the default, the Supplier will be terminated from further participation in the CHOICE and SSO programs, and Columbia will recall the capacity assigned by Columbia to the Supplier. Columbia may acquire and utilize gas supply as needed to supply the un-served demand. Any incremental costs incurred by Columbia will be included in the CSRR. The defaulting Supplier will be required to reimburse Columbia for any incremental costs and any such costs collected from the Supplier will be credited to the CSRR.

Q: What will be the next step, after stabilizing the situation in the first few days following the default?

A: The next step in the process will be the implementation of an allocation of the supply requirements to the non-defaulting SSO Suppliers.

Q: How will the defaulting Supplier's gas supply requirements be allocated?

A: Each non-defaulting SSO Supplier will be allocated a pro rata share of the defaulting Supplier's then current supply responsibility, which shall be based upon the initial forecasted annual delivery requirements for the SSO Period of the Tranches won by each SSO Supplier in the SSO Auction.

Q: When will the allocation of supply requirements occur?

A: Columbia intends to implement this allocation process in an expedited manner, the purpose of which will be to allocate the associated supply requirements to SSO Suppliers receiving the supply responsibility in conjunction with the monthly development of Demand Curves, in the next available monthly cycle following the default. This allocation will be for the remainder of the SSO Period.

Q: What price will SSO Suppliers be paid for the additional gas delivered as a result of the allocation of a defaulting Supplier's obligations?

A: The price of gas paid to SSO Suppliers will be the SSO Price, regardless of whether or not a Supplier default occurs.

Q: Is there a limit as to how much of the defaulting Supplier's gas supply requirement is assigned to any individual SSO Supplier?

A: An SSO Supplier will not be assigned a supply responsibility greater than 150% of the initial forecasted annual delivery requirement for the SSO Period of the Tranches won by the SSO Supplier. If all Suppliers reach their 150% limit, and supply requirements are still not fully satisfied, then Columbia will supply the remaining demand. Gas supply and capacity related costs incurred by Columbia while serving this role will be applied to the CSRR.

Q: How will a default by a CHOICE Supplier impact the associated CHOICE Customer's bill?

A: If the failing Supplier is a CHOICE Supplier, the affected CHOICE customers will pay their CHOICE contracted rate for the billing cycle in which the CHOCE Supplier's termination from the CHOICE program occurs and they will pay the SSO rate in the subsequent billing cycles. If the customer of a defaulting CHOICE Supplier chooses a different CHOICE Supplier, that request will be processed within the standard timing of the CHOICE program and the customer will be placed under that CHOICE Supplier's rate accordingly.

Q: In Section VII, Sheet 17 of the proposed tariff, Columbia describes how capacity assignment levels will be adjusted during a monthly review. How will that process described in Sheet 17 of the tariff impact and be impacted by an allocation of supply requirements resulting from a CHOICE Supplier default?

A: If a Supplier default event has occurred, and the allocation of the supply requirements obligation of the defaulting Suppliers to the non-defaulting SSO Suppliers has been completed, Columbia will then begin its monthly review of the comparison between demand and assigned capacity for the CHOICE program as described in the tariff on Sheet 17.4 of Section VII.

Q: What, if any, changes will be required in the process described on Sheet 17.4 in a month impacted by a CHOICE Supplier default?

A: In the month when a Supplier default impacts the capacity allocation, both the customer demand and capacity assignments associated with a defaulting CHOICE Supplier will be excluded from the calculations and comparisons described in Section VII, Sheet 17, paragraphs 17.4.A.1 and 17.4.A.2.

Q: What will be the next step in the capacity allocation process?

A: Columbia will first perform the calculation and comparison described in 17.4.A.2 which measures how the capacity assigned to the CHOICE Supplier group as a whole compares to the CHOICE customer demand as a whole. If a system wide reallocation of capacity, does not result from the 17.4.A.2 process, then Columbia will reassign the capacity recalled from the defaulting Supplier to the non-defaulting SSO Suppliers based on the percentage of the defaulting Supplier's supply requirement obligation that each SSO Supplier was allocated. Following this, Columbia will then perform the calculations and comparisons called for in 17.4.A.1 which measures how the capacity assigned to each CHOICE Supplier compares to the CHOICE customer demand of that CHOICE Supplier. If the result of the 17.4.A.1 process is a reallocation to certain CHOICE Suppliers and the SSO Suppliers, Columbia will then adjust the previously determined allocation of capacity based on those results.

Q: What will be the process if the results of the calculation and comparison described in 17.4.A.2 does result in a reallocation of capacity for all CHOICE and SSO Suppliers?

A: If an overall reallocation is called for, then that reallocation process as described in 17.4.A.2 will be implemented and shall supersede and eliminate any need to allocate the specific capacity recalled from the defaulting Supplier. An allocation pursuant to 17.4.A.2 eliminates the need to implement the individual CHOICE Supplier capacity review in 17.4.A.1 of the tariff.

Q: If the allocation of supply requirements results in Columbia continuing to serve a portion of the supply requirements as a result of the SSO Suppliers being limited to 150% of their initial Tranche supply requirement, as described earlier in this testimony, how will the allocation of capacity described above be impacted?

A: If such a situation occurred, Columbia would withhold sufficient capacity from the allocation process to serve those remaining supply requirements that it will need to serve.

Q: In topic number 15 of the Program Outline, titled "CHOICE/SSO Supplier Failure to Perform", Columbia proposed that an additional step occur in the allocation of a defaulting Supplier's supply requirements. Why does that step not appear in the proposed tariff?

A: During the weeks since Columbia filed its Program Outline as part of the Application, when attempting to put the voluntary assignment concept into practice by way of tariff language, Columbia determined that the practice would create an unexpected amount complexity in operations. The voluntary assignment of supply requirements results in Tranches no longer being of equal size. This deviation from the base plan would create inconsistent application and overly complicate the management of many of the processes in the program, including development of the Demand Curves, capacity release, scheduling and confirmation, billing and payments, credit evaluations and limits. In addition, the step creates additional unknowns for the SSO Auction process for bidders and can arguably result in an unlevel playing field between SSO Suppliers. As a result, Columbia has filed its tariffs without the voluntary step in the assignment process.

<u>COLUMBIA'S GAS PRICE HEDGING PLAN</u>

Q: In its Program Outline, where does Columbia describe the impact of the SSO process on its current Gas Price Hedging Plan?

A: Columbia describes the impact on its Hedging Plan in topic number 40 of the Program Outline.

Q: In its Application, Columbia reported in Section 40 that changes have been made to its current Gas Price Hedging Plan ("Hedging Plan"). Why are changes necessary in that Hedging Plan, and what were the changes?

A: Columbia's Hedging Plan has been in place (with some modification through the years) since 1998. The purpose of that plan is to mitigate the impact of potential winter price spikes by locking in the purchase price on a percentage of the expected winter purchases months ahead of time. However, the nature of the SSO Auction is to move away from that type of pricing and to link the price of the SSO Price to a price that SSO customers see on their invoice. By its nature, the SSO Price is intended to fluctuate with the monthly market prices in a more direct and transparent manner than does a GCR price. Therefore, Columbia has effectively terminated its Gas Price Hedging Plan and all related activity for the period after March 2010, which is the last month prior to the planned implementation of the First SSO Period.

<u>OFF-SYSTEM SALES AND CAPACITY RELEASE</u>

Q: In its Program Outline, where does Columbia describe the recommended changes to its Off System Sales and Capacity Release revenue sharing programs?

A: Columbia describes its recommended changes to this program in topic number 41 of the Program Outline.

Q: Does Columbia currently manage an Off-System Sales and Capacity Release program?

A: Columbia has managed Off System Sales and Capacity Release programs for over ten years. Approval of these programs has provided an opportunity for Columbia and its customers to better facilitate CHOICE programs and optimize the value of the pipeline capacity and the gas supply assets under contract to Columbia. The related revenue sharing mechanisms have created incentive for Columbia to create value through rigorous participation in upstream gas markets as a seller of gas supply and capacity products. In several past decisions, the Commission has seen fit to approve this program. Currently, during the period from November 1, 2008 through March 31, 2010 (the "Transition Period"), the program has once again been approved.

Q: How is Off-System Sales and Capacity Release revenue sharing approved to operate during the Transition Period?

A: All margin from Off-System Sales products and revenue from marketed Capacity Release contracts is added together at the end of each month of the seventeen month Transition Period. The first $4 million dollars of applicable revenue generated during the Transition Period is retained by Columbia. For all revenue in excess of $4 million, 35% is to be retained by Columbia if CHOICE program participation is under 35%, 50% is to be retained by Columbia when CHOICE participation is from 35% up to 50%, and 65% is to be credited to Columbia when CHOICE participation is above 50%. CHOICE and GCR customers receive their share by way of a credit to the CHOICE Program Sharing Credit.

Q: Why is it appropriate to continue an Off-System Sales and Capacity Release sharing program following the implementation of the proposed SSO Auction?

A: Though a large portion of Columbia's upstream capacity assets will be released to Suppliers following the implementation of the SSO Auction, certain capacity as detailed in Sections 24 and 26 of the Application, will be retained by Columbia for purposes of providing non-temperature balancing, peaking and operational supply services to the CHOICE and SSO Suppliers, as well as non-firm banking and balancing services to Transportation Service customers. It is important to continue the Off-System Sales and Capacity Release program so that the potential benefit in the form of cost mitigation for customers continues.

Q: What has Columbia proposed for the sharing mechanism in its Application?

A: For each of two twelve month periods, April 2010 through March 2011, and April 2011 through March 2012, Off System Sales and Capacity Release revenue generated by Columbia would be shared between Columbia and its CHOICE and SSO customers. During each twelve month period, customers would receive 80% of the first $4 million and Columbia would retain 20%. If Columbia exceeds $4 million dollars of revenue generation during the twelve month period, customers would receive 60% of the next $4 million and Columbia would retain 40% up to a point where the total reaches $8 million. If, during the twelve month period, revenues were to exceed $8 million, then customers would receive 40% of revenue and Columbia would retain 60% of revenue that is in excess of $8 million. Columbia's customers will receive their share of these revenues through credits to the CSRR.

Q: In the current program, Columbia's share of revenue increases as CHOICE participation increases, whereas in Columbia's Application, Columbia's share increases as revenue increases. Why has Columbia proposed this change in approach?

A: First, Columbia's proposed design for the SSO program is based in many respects on the need to maintain a level playing field between the CHOICE and the SSO Supply programs. This is the case from the way payments are made, to the way Demand Curves are created, to the way capacity is allocated, and more. Columbia has made every effort to design these two programs to work in the same manner in order to assure as much transparency in the market for customers as possible and to avoid any disincentives for either the CHOICE or SSO customer programs. During the SSO Periods, risk is created for CHOICE and SSO Suppliers whenever migration occurs between the programs. When risk increases for Suppliers, higher prices bid or offered to customers may be the result. Therefore, Columbia maintains that it would be inappropriate to promote an un-level playing field by proposing a sharing mechanism that favors one program over the other. Second, Columbia believes that it makes better sense in any case to build the foundation of the sharing mechanism on the results of the Off System Sales and Capacity Release program itself, thus providing a more direct and relevant incentive. Therefore, Columbia has proposed a program where its incentive increases as the generation of the revenues becomes increasingly difficult to achieve through each program year.

Q: How did Columbia arrive at the benchmarks of $4 million and $8 million for the differentiation between sharing levels?

A: In Columbia's proposal, most of Columbia's capacity will be released to SSO and CHOICE Suppliers who will deliver supplies to Columbia's city gate. As a result, the amount of overall revenue from Off System Sales and Capacity Release can be expected to be greatly reduced. Columbia will not be retaining the type or amount of firm pipeline transportation capacity that in the past could be marketed and released on a non-recallable long term or seasonal basis. Neither will there be similar abilities to sell flowing gas supplies and make other such Off System Sales transactions that are possible today because Columbia is actively managing gas supply purchases upstream of the city gate. The benchmarks proposed by Columbia reflect its belief that the ability to generate revenue after March 31, 2010, with greatly reduced flowing supply or available capacity, will be markedly reduced and more difficult than in the past, and that a stepped incentive using the proposed benchmarks will have the desired effect of promoting better results for both Columbia and its customers.

Q: What is the definition of Off System Sales margin and Capacity Release revenue in Columbia's proposal?

A: The definitions of Off-System Sales margin and Capacity Release revenue approved by the Commission for the Transition Period are proposed to continue during the two SSO Periods, with one exception. Columbia has proposed that it retain 35,650 Dth/day of Columbia Gas Transmission ("TCO") FTS capacity to be released by Columbia to its Transportation Service customers or their agents. Columbia proposes that the demand cost of this capacity be excluded from recovery through the CSRR, and rather, that it be borne by Columbia. Furthermore, just as the cost of said capacity would be borne by Columbia, any revenue received for the capacity would be retained by Columbia for purposes of mitigating the costs. As previously stated, Columbia plans to temporarily release or permanently assign this capacity to Transportation Service customers, or to the agents or suppliers of those customers. In its efforts to mitigate these costs, however, Columbia also retains the right to release or assign these capacities to other entities.

Q: How will the release of this 35,650 Dth/day of capacity be tracked so that it is not confused with the capacity release efforts that will occur under the sharing mechanism?

A: First, there is no other equivalent capacity in Columbia's proposal that is to be retained by Columbia. Specifically, this capacity will have a different point of receipt than even similar TCO FTS that is retained for operational reasons. Second, Columbia has proposed that the revenue and cost information related to the retained 35,650 Dth/day of TCO FTS capacity be available for review as part of the CSRR financial audit.

Q: Does this complete your Prepared Direct testimony?

A: Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Scott D. Phelps of Columbia Gas of Ohio, Inc. was served upon all interested persons and parties of record by regular U. S. mail this 26th day of March, 2009.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Scott D. Phelps of Columbia Gas of Ohio, Inc. was served upon all interested persons and parties of record by regular U. S. mail this 26th day of March, 2009.

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