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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia)
Gas of Ohio, Inc. for Approval of a General) Case No. 08-1344-GA-EXM
Exemption of Certain Natural Gas Commodity)
Sales Services or Ancillary Services)

PUCO

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STAFF REPLY COMMENTS
SUBMITTED ON BEHALF
OF THE PUBLIC UTILITIES COMMISSION OF OHIO

June 16, 2011

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On December 2, 2009 the Commission approved a joint stipulation by the parties to this proceeding which outlined the terms under which Columbia would replace its GCR commodity service with an auction based Standard Service Offer (SSO) through March 31, 2012 and subsequently through a Standard Choice Offer (SCO) auction beginning April 1, 2012. On April 15, 2011, Columbia filed a revised program outline in which it outlined the changes necessary to implement the transition from the SSO phase to the SCO phase. On May 9, 2011, the Ohio Gas Marketers' Group (OGMG) and North Coast Gas Transmission, LLC filed comments on the revised program outline. On June 1, 2011, the Commission issued an Entry permitting parties to file replies to those comments by June 16, 2011. The PUCO Staff provides the following reply comments.

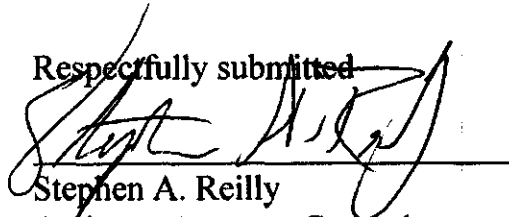
The OGMG objects to Columbia's requirement that winning SSO/SCO suppliers be required to post a cash deposit with Columbia in the event of a supplier default requiring the remaining SSO/SCO suppliers to step in to serve the defaulting suppliers

customers at the auction price. The deposit is intended to reimburse the remaining suppliers for any additional costs incurred by this obligation. This so-called "Cross Collateral" requirement is in addition to a separate collateral requirement to cover Columbia's financial exposure in the event of a supplier default. OGMG objects to the requirement that the Cross Collateral deposit be in the form of a cash deposit. OGMG argues that a letter of credit or a surety bond from a bank or financial institution would be a less costly form of collateral to the SSO/SCO suppliers than a cash deposit. According to OGMG the additional cost of the more expensive cash deposit needs to be incorporated into any SSO/SCO supplier's auction bid which in turn will raise the costs to SSO/SCO customers. OGMG also points out that the cash deposit is not put into a segregated account strictly for the benefit of the winning bidders but is instead posted in Columbia's general books, and as such the funds could be attached by Columbia's creditors. In addition, Columbia is not required to invest the cash deposit on behalf of the suppliers and thus "usurps" the time value of the Cross Collateral. In support of their position, OGMG points out that both Dominion and Vectren have similar Cross Collateral requirements for their SSO/SCO suppliers but both use financial instruments rather than cash deposits.

The Staff fully supports the OGMG position that a cash deposit requirement imposes an unnecessary cost to winning bidders that ultimately may be passed through to customers in the form of a higher auction result. As noted by OGMG, both Dominion and Vectren allow non-cash financial instruments to satisfy the Cross Collateral requirements so it is not apparent why such instruments would not also provide adequate security for

Columbia. Staff recommends the Commission direct that the program outline be amended to allow such financial instruments as a letter of credit of surety bond as an alternative to a cash deposit. Should the Commission determine a cash bond is the appropriate form of collateral, the Commission should require Columbia to pay a reasonable amount of interest to the suppliers to reflect the opportunity cost to suppliers in losing the ability to invest the cash deposit elsewhere.

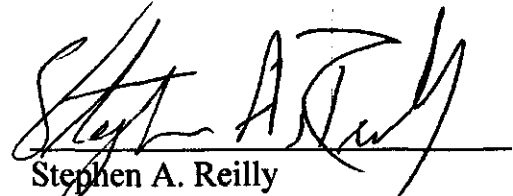
Respectfully submitted

A handwritten signature in black ink, appearing to read "Stephen A. Reilly", is written over a horizontal line.

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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing was served by regular U.S. mail, postage prepaid, and/or by e-mail on June 16, 2011, upon the following:


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