

FILE

**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)

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PUCO

PREPARED TESTIMONY
of
Stephen E. Puican
Rates & Tariffs/Energy & Water Division

Staff Ex. _____

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1 **PREPARED TESTIMONY OF STEPHEN E. PUICAN**

2 1. Q. Would you please state your name and business address?

3 A. My name is Stephen E. Puican. My business address is 180 East Broad
4 Street, Columbus, Ohio.

5 2. Q. What is your present employment?

6 A. I am currently employed as Co-Chief of the Rates & Tariffs/Energy &
7 Water Division in the Utilities Department of the Public Utilities
8 Commission of Ohio ("PUCO").

9 3. Q. Would you outline your academic and professional qualifications?

10 A. I received a B.A. degree in Economics from Kent State University in 1980
11 and an M.A. degree in Economics from Ohio State University in 1983. I
12 was employed by the Ohio Department of Development, Division of
13 Energy, from May 1983 until October 1985 at which that Division was
14 incorporated into the PUCO. I have been employed in several positions at
15 the PUCO since that time and have been Co-Chief of the Rates &
16 Tariffs/Energy & Water Division since May 2005. Prior to that, I had been
17 Chief of the Gas and Water Division since 1999. In both my current and
18 previous positions I have been responsible for oversight of the Utilities
19 Department's natural gas staff which includes responsibility for all GCR
20 cases, as well as other areas relating to natural gas such as contracts, certain
21 tariff provisions and rate case issues. I have also been involved in the
22 development and evolution of Ohio's customer choice programs as well as

1 the transition from the Gas Cost Recovery commodity pricing mechanism
2 to the Standard Service Offer (SSO) and Standard Choice Offer (SCO)
3 mechanisms. I have previously testified in support of the SSO/SCO
4 commodity pricing mechanisms.

5 4. Q. What is the purpose of your testimony in this proceeding?
6

7 A. I will present evidence from the auctions conducted to date that
8 demonstrates the additional value of an SCO auction beyond the SSO-only
9 auction.

10 5. Q. What evidence have you observed that demonstrates this additional value?

11 A. I believe the auction results themselves clearly demonstrate the additional
12 value an SCO auction creates beyond that of an SSO-only auction. Exhibit
13 SEP-1 shows a history of the various auctions since the first Dominion
14 auction in 2006. In addition to the auction results in the Exhibit, there is
15 also a row labeled Maximum GCR Adder which shows for each Company,
16 an adder rate that Staff calculated to be the upper limit of what Staff would
17 view as an acceptable auction result. These maximum GCR adders were
18 based on the historical differences between NYMEX and each Company's
19 GCR prior to the auctions. The methodology for these calculations can be
20 found in the Staff Reports filed on August 29, 2006 in Case No. 05-474-
21 GA-ATA for Dominion, August 19, 2008 in Case No. 07-1285-GA-EXM
22 for Vectren, and on February 23, 2010 in Case No. 08-1344-GA-EXM for
23 Columbia. The exhibit shows the results of each auction in the form of an

1 adder to the monthly NYMEX settlement price. The sum of the adder and
2 the monthly NYMEX closing price would be the SSO or SCO rate. The
3 exhibit also shows each Company's adder as a percentage of that
4 Company's Maximum GCR Adder. Looking at percentages makes for a
5 more level comparison of the auction results across companies since it
6 would tend to compensate for any inherent structural differences among the
7 companies that would cause differences in the costs of operating on each
8 system.

9 In this testimony I will not be considering the results of the SSO period that
10 ran from September 2008 through March 2009 for Dominion and from
11 September 2008 through March 2010 for Vectren. I consider the results of
12 these two auctions to be anomalies due to the timing of the auctions and the
13 market conditions that existed immediately before and after those auctions.
14 Because the auctions took place toward the latter part of the storage
15 injection season (July 22, 2008 for Dominion and August 19, 2008 for
16 Vectren), the winning auction bidders were required to purchase the gas
17 placed in storage to that point at the price paid by Dominion and Vectren.
18 During that period gas prices spiked dramatically and then declined by the
19 time the auctions took place. The net result of this was that winning SSO
20 providers were required to purchase gas from storage at a price significantly
21 higher than the projected NYMEX price at the time the gas would be sold.
22 Bidders thus had to incorporate that market price differential into the

1 auction based adder. The result was an adder (\$2.33 for Dominion and
2 \$2.35 for Vectren) that I consider to be an outlier compared to the other
3 auction results. Although this leaves only two valid data points for Vectren
4 and Columbia, it is nonetheless all of the useful empirical data we have
5 available.

6 6. Q. What conclusions can you draw from the information on Exhibit SEP-1?

7 A. Looking at the numbers for Dominion, there is a pattern of declining
8 auction results since the initial SSO auction. For Vectren, the results show
9 the same pattern although we do not have a valid SSO-only auction result
10 for reference. For Columbia, we have two SSO-only auction results which
11 show a decline from 2010 to 2011. Looking at the results in percentage
12 terms, Dominion's initial SSO auction resulted in an adder which was 57.6
13 percent of its maximum GCR adder. This compares to 63.1 percent for
14 Columbia in 2010 and 61.4 percent in 2011. For the reasons discussed
15 above we do not have an SSO auction result for Vectren that would be
16 useful in this analysis. Dominion's first SCO auction in 2009 produced only
17 a modest reduction from \$1.44 to \$1.40 but produced significant reductions
18 in each of the next two years, dropping to \$1.20 in 2010 and to \$1.00 in
19 2011. In terms of the percentage of the maximum GCR adder, it declined
20 from 56 percent in 2009 to 48 percent in 2010 and 40 percent in 2011. For
21 Vectren the percentages were 65.7 in 2010 and 57.2 in 2011. Although the
22 decline for Vectren is less dramatic than for Dominion, this is likely

1 attributable to its smaller size making it somewhat less desirable than either
2 Dominion or Columbia. This is further evidenced by the smaller number of
3 marketers participating in the two Vectren SCO auctions. The results of
4 Columbia's two SSO auctions are 63.1 percent of its maximum GCR adder
5 in 2010 and 61.4 percent in 2011. These numbers compare with
6 Dominion's initial SSO result of 57.6%. The subsequent decline in
7 Dominion's adders is, in my opinion, attributable to the transition from the
8 SSO to the SCO. By contrast, Columbia has received two virtually identical
9 auction results for its two SSO auctions. While Dominion and Vectren both
10 saw a twenty-cent reduction from 2010 to 2011, Columbia saw only a five-
11 cent decline. There is no apparent reason to believe those results would
12 differ markedly in any future Columbia SSO-only auction. An SSO adder
13 of approximately \$1.90 or approximately 62% of the historical maximum
14 GCR adder, appears to be the value marketers place on participating in
15 Columbia's SSO program.

16 7. Q. Are there other results from the auctions to date that you believe support
17 your position that the SCO provides benefits in excess of an SSO-only
18 auction?

19 A. Yes. I believe the degree of participation in the various auctions also
20 demonstrates the greater value marketers place on the SCO auction as
21 opposed to an SSO-only auction. Exhibit SEP-2 is a listing of marketers
22 that have participated in at least one of the auctions held to date. The

1 identity of the specific marketers is not relevant so they are shown as letters
2 A through AD. Each marketer's participation in a particular auction is
3 denoted by a "D" for Dominion, "V" for Vectren and "C" for Columbia. In
4 addition, any marketer that is not a certified CRNGS provider is
5 highlighted. I will focus on the last three Dominion auctions since these had
6 both an SCO and a separate SSO component. Vectren by contrast conducts
7 only an SCO auction with the SSO customers assigned on a pro rata basis
8 to the winning SCO bidders. In the Dominion auctions, the participants
9 showed a clear preference for the SCO auction. In the 2009 – 2010 auction,
10 there were eleven total bidders, all of which were certified, with one
11 participating in only the SSO auction. All the others participated in either
12 the SCO only or both the SCO and SSO auctions. In the 2010 – 2011
13 auction, there were fourteen total bidders, all but two of which were
14 certified. In the 2011 – 2012 auction, there were sixteen total bidders and
15 again only two uncertified. There are two conclusions I draw from these
16 results. First, that there is a clear preference for the SCO auction over the
17 SSO auction with only one bidder in 2009 and two bidders in each of 2010
18 and 2011 participating in only the SSO auction. The second point is that the
19 need to be certified as a CRNGS provider does not appear to be an
20 impediment to attraction participation in the auction with the sixteen
21 bidders in 2011 being the highest number to participate in any of
22 Dominion's auctions.

1 8. Q. The Office of the Ohio Consumers' Counsel argues that the difference in
2 tax rates between the gross receipts tax, which applies to SSO sales, and the
3 higher sales tax rates which apply to SCO sales ensures that customers will
4 pay more under the SCO than the SSO. How do you respond to this
5 assertion?

6 A. I prepared Exhibit SEP-3 to calculate the impact of the difference in tax
7 rates. I first took the NYMEX closing prices for the months shown in the
8 exhibit in column (2) and added Columbia's applicable monthly SSO adder
9 to arrive at the total rate in column (3). I then multiplied this rate by
10 Columbia's monthly SSO sales volumes to arrive at the total bill in column
11 (4). I then applied Columbia's gross receipts tax of 4.987% to arrive at
12 column (5) and a sales tax rate of 7% to arrive at column (6)¹. The
13 difference between these two columns is the tax delta shown in column (7).
14 The total impact of the tax differential in that twelve month period is
15 \$10,169,260. I then calculated how much of a difference in the SCO
16 auction adder would be required to generate sufficient savings to offset this
17 tax differential. Dividing the tax delta by the Mcf sales in column (1)
18 resulted in a differential of just over twelve-cents per Mcf. The conclusion
19 is that if auction participants bid a premium of at least thirteen-cents as the
20 added value of the SCO above the SSO, that premium will more than offset

¹ I chose 7% as a representative rate since 47 of 88 counties have a 7% rate, only 1 has a higher rate and the remaining 40 are lower.

1 the tax impact.

2 9. Q. Do you believe the auction results to date demonstrate at least a thirteen
3 cent premium?

4 A. Yes they do. As I discussed above, I would argue that the reduction in
5 Dominion's adder from \$1.44 in its initial SSO auction to \$1.00 in the most
6 recent SCO auction is due to the additional value the SCO brings to
7 consumers beyond the value of the SSO. Taking an even more conservative
8 approach however, we can compensate for any impact that differences in
9 market conditions may have had on that forty-four cent price differential by
10 comparing the results of the Dominion and Vectren SCO auctions in 2010
11 and 2011 with Columbia's SSO auction results in the same time period. As
12 I noted above, Dominion and Vectren both saw a twenty-cent reduction in
13 the SCO adder from 2010 to 2011, while Columbia saw only a five-cent
14 decline in the SSO adder. This fifteen-cent net difference is a conservative
15 estimate of the added value marketers put on the SCO. In my opinion the
16 auction results to date put the SCO premium between forty-four and
17 fifteen-cents per Mcf. Even at the low end, this premium more than offsets
18 the impact of the tax rate differential.

19 10. Q. In both the 2010 and 2011 Dominion auctions, the SSO auction produced
20 the same result as the SCO auction. How do you account for this result in
21 light of your testimony that bidders put a premium on the SCO auction?

22 A. The fact that the 2010 and 2011 auctions saw the same result for both

1 auctions in my opinion simply means we got a lower SSO auction result
2 than we would have gotten in the absence of the SCO auction. It is simply
3 not reasonable to assume that the SSO result would have been the same had
4 it been a stand-alone SSO auction. As I illustrated in Exhibit SEP-2 it is the
5 desirability of earning a direct retail relationship with SCO customers that
6 drives interest in the SCO auctions and that in turn brings an interest to the
7 SSO auction that otherwise would not materialize. The result is a lower bid
8 price in both auctions due to the existence of the SCO. The fact that the
9 SSO and SCO auction results were the same in 2010 and 2011 does not
10 change that conclusion. We have an SCO model that unquestionably
11 produces substantial savings to customers. We should not endanger these
12 savings by rejecting this proven model and going backward to an SSO-only
13 model with only the hope that it produces the same results. In my opinion
14 the reversion to an SSO-only auction would jeopardize the progress we
15 have made to date in terms of high levels of participation in the auctions
16 and the resulting cost savings to customers.

17 11. Q. What is your recommendation for the Commission?

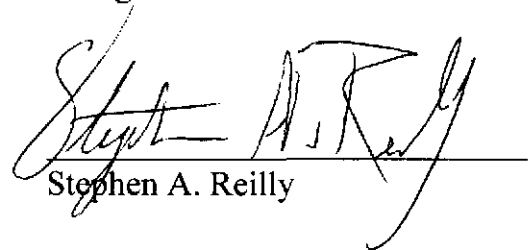
18 A. I recommend the Commission authorize Columbia to proceed with an SCO
19 auction beginning in 2012 and continuing each year thereafter unless
20 otherwise ordered by the Commission.

21 12. Q. Does this conclude your testimony?

22 A. Yes, it does.

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 July 8, 2011, upon the following:



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SSO/SCO Auction Results

	<u>Dominion</u>		<u>Vectren</u>		<u>Columbia</u>	
Maximum GCR Adder:	\$2.50		\$2.36		\$3.06	
Auction Adders:						
10/06 - 8/08	\$1.44	57.6%				
9/08 - 3/09	\$2.33	93.2%	\$2.35	99.6%		
4/09 - 3/10	\$1.40	56.0%	\$2.35	99.6%		
4/10 - 3/11	\$1.20	48.0%	\$1.55	65.7%	\$1.93	63.1%
4/11 - 3/12	\$1.00	40.0%	\$1.35	57.2%	\$1.88	61.4%

SSO/SCO Auction Participation

Supplier	2006-2008		2008-2009		2009-2010		2010-2011		2011-2012	
	SSO		SSO		SCO	SSO	SCO	SSO	SCO	SSO
A	D		D		D	D	D	D,C	D	D,C
B								C		C
C					D		D,V		D,V	
D							C			C
F	D		D			D,V	D,V	D,C	D,V	D,C
I	D		D		D		D,V	D,C	D,V	D,C
J									D	D
M	D		D		D	D,V	D,V	D,C	D,V	D,C
N	D									
O	D		D		D	D,V	D	D	D	D
P			D		D	D	D	D	D	D
R	D		D		D	D,V	D,V	D,C	D,V	D,C
S					D		D		D	
T								C		C
U							D		D	
V								C		C
W	D		D				D		D	D,C
Y	D									
Z	D				D	V	D,V	C	D,V	
AB								C		C
AC									D	D

D = Dominion

V = Vectren

C = Columbia

Exhibit__SEP-3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Mcf Sales	NYMEX	Total Rate	Total Billed	With Ex.Tax	With Sls. Tax	Tax Delta	SCO Delta @ 13 Cents
May-10	3,502,371	\$4.717	\$6.647	\$23,280,260	\$24,441,247	\$24,909,878	\$468,632	\$455,308
Jun-10	1,958,716	\$4.774	\$6.704	\$13,131,232	\$13,786,087	\$14,050,418	\$264,332	\$254,633
Jul-10	1,465,460	\$3.651	\$5.581	\$8,178,732	\$8,586,606	\$8,751,244	\$164,638	\$190,510
Aug-10	1,290,665	\$3.837	\$5.767	\$7,443,265	\$7,814,461	\$7,964,294	\$149,833	\$167,786
Sep-10	1,309,770	\$3.292	\$5.222	\$6,839,619	\$7,180,711	\$7,318,392	\$137,682	\$170,270
Oct-10	2,122,315	\$4.267	\$6.197	\$13,151,986	\$13,807,876	\$14,072,625	\$264,749	\$275,901
Nov-10	4,986,914	\$4.216	\$6.146	\$30,649,573	\$32,178,068	\$32,795,044	\$616,976	\$648,299
Dec-10	11,332,969	\$4.316	\$6.246	\$70,785,724	\$74,315,808	\$75,740,725	\$1,424,917	\$1,473,286
Jan-11	17,224,929	\$3.793	\$5.723	\$98,578,269	\$103,494,367	\$105,478,747	\$1,984,381	\$2,239,241
Feb-11	16,219,242	\$4.240	\$6.170	\$100,072,723	\$105,063,350	\$107,077,814	\$2,014,464	\$2,108,501
Mar-11	12,219,272	\$4.377	\$6.307	\$77,066,949	\$80,910,277	\$82,461,635	\$1,551,358	\$1,588,505
Apr-11	9,023,685	\$4.326	\$6.206	\$56,000,989	\$58,793,758	\$59,921,058	\$1,127,300	\$1,173,079
Total	82,656,308			\$505,179,322	\$530,372,614	\$540,541,874	\$10,169,260	\$10,745,320

Tax Impact: (7)/(1) =12.3 cents per Mcf