BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Applications of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service.	))))	Case No. 07-829-GA-AIR
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Rate Plan for its Gas Distribution Service.	))))	Case No. 07-830-GA-ALT
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Change Accounting Methods.	)))	Case No. 07-831-GA-AAM

OBJECTION TO THE STAFF REPORT AND SUMMARY OF MAJOR ISSUES BY INTEGRYS ENERGY SERVICES, INC. AND INTERSTATE GAS SUPPLY, INC.

Introduction

Pursuant to Section 4909.19, Revised Code, Rule 4901-01-28(B) of the Ohio Administrative Code, and the May 23, 2008 Attorney Examiner's Entry in these matters, marketers Integrys Energy Services, Inc. and Interstate Gas Supply, Inc. (here in after jointly referred to as “Marketers”), submit this Objection to the Staff Report and its Summary of Major Issues. Both Integrys Energy Services, Inc. and Interstate Gas Supply, Inc. are parties of record in the above styled proceeding.

Objection to the Staff Report

The Marketers object to the Staff's recommendation that the Commission require Dominion East Ohio (“DEO”) to modify its choice pooling service agreements to incorporate a thirty day lag between accounts being billed and the remittance of the receivables as set forth on pages 7, 26, and 83 of the May 23, 2008 Staff Report of Investigation. The Staff states at page 26 that the working capital needs of DEO can be reduced by some $46 million dollars if the payment lag between when the gas is received from the Choice supplier at the city gate - to when Choice supplier is paid for that gas is doubled from 14 to 30 days.

What is unstated is that this reduction in costs to DEO is not necessarily a savings to the end use customer. The carrying cost for the natural gas from the time of delivery to the local distribution company to the time the customer pays the local distribution company is a legitimate cost of doing business and must be reflected in the total charges that the customer pays for gas service. In substance, such costs have already been shifted from DEO to either the Choice supplier or the SSO supplier, because they, not DEO, are now delivering natural gas to the system in advance of being paid for those volumes delivered. Accordingly, shifting most of the remaining carrying costs from the DEO distribution charge to the Choice and SSO supplier's commodity charge may create an efficiency, but only if collectively the Choice and SSO Suppliers have a lower cost of borrowing than DEO. In either instance, whether based on the 14-day or 30-day lag, the customer will pay the carrying cost of capital associated with the service - the question that remains is which mechanism to utilize, but answering that question requires more that considering only the numerical calculation of the carrying cost of capital.

Ultimately, so that rates can fairly be adjusted to reflect the time lag associated with payment, if the Commission decides to shift more of the carrying cost for the natural gas after the local distribution company takes possession; it should do so at the beginning of the contract period. It is inequitable to make Choice Suppliers who set their retail customer prices based upon contract \ tariff payment terms of 14 days absorb the transfer of carrying costs until they have a chance to renegotiate their contracts. Further, the current contracts and tariffs treat the Standard Service Suppliers the same as the Choice providers in terms of payment by DEO. We are a month away from the next auction and at this point it is likely that most of those anticipating participation in the next auction have already considered the current 14-day lag, as opposed to 30-day lag in payment, in calculating potential bidding options. Accordingly, the uncertainty associated with this issue at this time may impact auction and choice contract pricing, unless the change is made consistent with contract period pricing, with adequate notice. If this change is made, it should be implemented no earlier than the auction scheduled for early 2009, to provide sufficient time for potential bidders and suppliers to prepare for this change. This will also help to avoid an increase in the upcoming auction and allow the existing cycle of retail contracts based on the 14-day payment cycle to expire.

Summary of Major Issues

1. The Staff's recommendation to require Dominion East Ohio to extend the remittance period related to the purchase of accounts receivables from natural gas marketers serving choice customers from two weeks to thirty days and to modify choice pooling service agreements to incorporate a thirty day lag between accounts being billed will interfere with existing contracts, so if undertaken must be done so with sufficient lead time to enable Choice suppliers to make necessary changes to those agreements and to permit the SSO/SCO stakeholder group sufficient time to modify the appropriate phase of the program to take this change into account for the next phase of the process.

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/s/

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Objection to the Staff Report and Summary of Major Issues by Integrys Energy Services, Inc. and Interstate Gas Supply, Inc. was served upon the following persons, by first-class, U.S. mail, postage prepaid, and, where applicable, by e-mail, this 23rd day of June, 2008.

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