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*OCC EXHIBIT*_____

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. 08-1344-GA-EXM

REBUTTAL TESTIMONY
OF
GREGORY SLONE

On Behalf of
The Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
(614) 466-8574

July 14, 2011

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ATTACHMENTS

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Gregory Slone. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC" or "Consumers' Counsel") as a Senior Energy Analyst.

Q2. ARE YOU THE SAME GREGORY SLONE WHO FILED DIRECT TESTIMONY IN THIS CASE?

A2. Yes.

II. PURPOSE OF REBUTTAL TESTIMONY

Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A3. My rebuttal testimony responds to the claims presented by the testimony of Staff Witness Puican that the SCO auction will yield superior benefits to the SSO-only auction. Mr. Puican concluded that the SCO "premium more than offsets the impact of the tax rate differential"1 and that "We have an SCO model that unquestionably produces substantial savings to customers."[2]

[1] Puican Direct at 8.
[2] Puican Direct at 9.

Q4. ***HAVE YOU REVIEWED THE PREPARED TESTIMONY OF MR. PUICAN IN THIS CASE?***

A4. Yes.

III. FACTORS THAT EFFECT THE RETAIL PRICE ADJUSTMENT

Q5. ***HAVE YOU IDENTIFIED ANY FLAWS, OR OMISSIONS, RELATED TO HIS ANALYSIS OF THE SSO AND SCO RETAIL PRICE ADJUSTMENT ("RPA")?***

A5. Yes. Mr. Puican has failed to incorporate in his testimony a number of factors that affect the resulting RPA in the SCO or SSO rate from one auction to another. The Dominion East Ohio Gas Company ("Dominion") SSO auction conducted on July 22, 2008 and the Vectren Energy Delivery of Ohio ("Vectren") SSO auction conducted on August 19, 2008 both produced results that increased the RPA from the previous period. In his testimony Mr. Puican discussed the reason to discount the results of those two auctions, which was due to timing of the auctions and the market conditions that existed at the time of the auction. While I agree with his reasoning on that issue, for the next three Dominion auctions and the next two Vectren auctions, he offers no analysis to explain why the auctions produced a lower RPA. The failure of Mr. Puican to include the impact of prevailing market conditions on the results of these other auctions is a major flaw of his testimony. Instead, Mr. Puican seemed to include the impact of market conditions selectively and only if the result did not fall in line with other results. This is an inconsistent approach to evaluating the auction results, especially with the limited data points available for analysis. Mr. Puican points out the downward direction of the recent SSO/SCO auction price results, but he has not discussed any of the other possible factors that caused this movement.

Q6. WHAT FACTORS DID MR. PUICAN FAIL TO TAKE INTO CONSIDERATION IN HIS EVALUATION OF THE VALUE OF AN SCO RETAIL AUCTION BEYOND THE SSO-WHOLESALE ONLY AUCTION?

A6. The main factors that Mr. Puican failed to include in his analysis are the source of gas in Marketers' supply portfolio and prevailing market conditions which I explain later in this testimony. The source of gas that makes up a Marketer's supply portfolio can have a profound effect on the RPA in an individual auction. For instance, with the increased availability of shale gas in Appalachia, it is possible that a bidding Marketer's supply portfolio of local gas has increased over the past several years. As a Marketer's local gas supplies make up a higher percentage of a Marketer's portfolio, less gas supplies from the southwest will be needed to meet the Marketer's obligations. The end result would be that the bidder could be more aggressive regardless of whether the auction was an SSO wholesale auction or an SCO retail auction, because with more local production the Marketer could avoid transportation costs and thus bid more aggressively to produce a lower auction price.

Q7. WHAT IS THE SIGNIFICANCE OF INCREASED LOCAL GAS SUPPLIES TO A MARKETER'S PRICE TO SERVE THEIR SCO OBLIGATION?

A7. Increased local gas supplies allow Marketers to improve their supply portfolio especially when additional local gas supplies are competitively priced compared to the NYMEX prices. Local gas supplies can usually be purchased at a discount to NYMEX prices and that discount can be used as an offset to the RPA adder. The auction price is the monthly NYMEX price plus a fixed adder. If the local gas is purchased at a price below NYMEX – NYMEX minus $0.40 per Mcf, for example -- that differential can go to bidding for a lower RPA than would otherwise be possible.

Q8. DO YOU HAVE ANY EVIDENCE OF LOCAL GAS SELLING AT A DISCOUNT TO THE NYMEX?

A8. Yes. The OCC recently participated in the Northeast Ohio Natural Gas ("Northeast") GCR Audit (Case No. 10-209-GA-GCR). During my review of discovery in that case, I reviewed a number of local gas purchase contracts between John D. Oil and Gas ("JDOG"), Northeast's agent to purchase gas supplies, and local gas producers (See Attachment GS-1). Of the 20 local production contracts I reviewed, 17 of the gas purchase contracts contained a discount of $0.20 to $0.45 per Dth to the NYMEX price. If a company as small as Northeast could purchase local production at these rates, I believe that the Marketers bidding in the Columbia, Dominion or Vectren auctions could also. In addition to the lower commodity price, local production gas would also have the benefit of little or no pipeline transportation, capacity or shrinkage costs. This lower commodity price could easily account for the declining RPA in the recent Dominion and Vectren SCO auctions.

Q9. IS THE AMOUNT OF LOCALLY PRODUCED GAS BECOMING MORE OF A FACTOR IN OHIO?

A9. Yes. Based on information found on the Ohio Oil and Gas Association website (See Attachment GS-2) not only is local gas production becoming more of a factor with the potential of shale gas in Ohio, but at least one gas company -- Dominion -- is actively working with the local gas producers to accept more local gas into their system. In 2010, natural gas production in Ohio was 78 Bcf (see Attachment GS-3) and accounted for 12% of Ohio's total gas consumption.

Q10. ARE THERE OTHER FACTORS THAT WOULD HAVE ACTED TO REDUCE THE SCO PRICE OVER THE LAST THREE AUCTION PERIODS?

A10. Yes. As pointed out by Exeter Associates, Inc. in their report to the PUCO in the Management and Performance Audit of Gas Purchasing Practices and Policies of The East Ohio Gas Company (See Attachment 4), Case No. 07-219-GA-GCR, the SSO -- or in recent years, the SCO -- bid price is extremely sensitive to market conditions at the time of the auction.[3]

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[3] *Report to the Public Utilities Commission of Ohio on the Management Performance Audit of Gas Purchasing Practices and Policies of East Ohio Gas Company, Case No. 07-219-GA-GCR at ix (November 30, 2007).*

Q11. HOW CAN MARKET CONDITIONS AFFECT THE BID PRICE IN AN SSO OR SCO AUCTION?

A11. The Market conditions can affect the bid price in a couple of ways. First, if there is a significant differential between seasonal NYMEX prices at the time of the auction, the supplier could factor in the use of storage to purchase lower priced gas in the summer for redelivery in the winter, rather than buying higher priced NYMEX gas in the winter period. As Exeter pointed out in their 2007 Audit, there was a significant spread between summer 2006 and winter 2006-2007 gas prices. Exeter believed that had the auction been conducted a month later, it could have had as much as $0.48 per Mcf reduction in the SSO adder.

Q12. ARE THERE OTHER WAYS THAT MARKET CONDITIONS CAN AFFECT THE BID PRICE?

A12. Yes. As the NYMEX price of natural gas rises or falls, the cost of shrinkage (pipeline retainage, storage retainage and distribution retainage) the Marketer must pay on the lost gas rises or falls, as well. This percentage of retainage or shrink varies with each company and the number of pipelines involved in the transportation of the supplier's gas. For example, if gas is $10.00 per Dth and the pipelines, storage and distribution retainage is 5%, the net effect is an increase in cost of $0.50 per Dth. If the gas cost is $4.00 per Dth and shrink is 5%, then the net effect is an increase in cost of $0.20 per Dth. The Marketer must directly account for this added cost in their bid.

A typical shrinkage rate from the Henry Hub (NYMEX) to Columbia Gas of Ohio is approximately 4%.[4] As can be seen on Attachment GS-5, at the time of the last two auctions for each of the LDCs (Dominion, Vectren and Columbia), the 12-month NYMEX strip price decreased by approximately $1.00 to $1.30 per Dth. This means the Marketers cost of shrinkage, which is accounted for in the RPA, would have decreased from $0.04 per Dth for the Columbia auction and $0.05 per Dth for Dominion and Vectren auctions. This change alone could account for the $0.05 per Mcf drop from Columbia's 2010 RPA to their 2011 RPA.

Q13. WOULD THESE MARKET FACTORS YOU DISCUSS POTENTIALLY IMPACT AN SSO OR AN SCO AUCTION RESULTS EQUALLY?

A13. Yes they would.

Q14. ARE THE MARKET FACTORS YOU DESCRIBED ABOVE SIGNIFICANT ENOUGH TO EXPLAIN THE DECREASE IN THE DOMINION SCO RPA OVER THE LAST THREE AUCTIONS?

A14. Certainly they could be. However, I don't have all of the data to substantiate that claim, but evidently neither does Mr. Puican. The fact that Mr. Puican failed to even acknowledge the impact of these market factors is a major flaw to his analysis. Only the Marketers possess the necessary data to perform the analysis, and they didn't do it. From that, I conclude that the SCO as proposed in

[4] Columbia Gulf Transmission Corporation, Tariff sheet, FERC Tariffs, Third Revised Volume No. 1, V.8, Currently effective Rates: Columbia Gas Transmission, LLC., Tariff Sheets, Fourth Revised Volume No. 1, V.17, Currently Effective Rates.

Columbia's application provides no objective, tangible and/or quantifiable benefits beyond what could otherwise be achieved by an SSO auction.

IV. CONCLUSION

Q15. WHAT IS YOUR RECOMMENDATION?

A15. I recommend the Commission reject this application to move from an SSO wholesale auction rate to an SCO retail auction rate.

Q16. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A16. Yes. However, I reserve the right to incorporate new information that may subsequently become available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Rebuttal Testimony of Gregory Slone on behalf of the Office of the Ohio Consumers' Counsel* was provided to the persons listed below via electronic mail this 14th day of July, 2011.

/s/ Larry S. Sauer
Larry S. Sauer
Assistant Consumers' Counsel

SERVICE LIST

Stephen B. Seiple
Brooke E. Leslie
Columbia Gas of Ohio, Inc.
200 Civic Center Drive
P.O. Box 117
Columbus, Ohio 43216-0117
sseiple@nisource.com
bleslie@nisource.com

William L. Wright
Stephen Reilly
Attorney General's Office
Public Utilities Section
180 East Broad Street, 6th Floor
Columbus, Ohio 43215
william.wright@puc.state.oh.us
stephen.reilly@puc.state.oh.us

David Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
dboehm@bkllawfirm.com

Larry Gearhardt
Ohio Farm Bureau Federation
280 North High Street
P.O. Box 182383
Columbus, Ohio 43218-2383
lgearhardt@ofbf.org

Samuel C. Randazzo
Joseph E. Clark
McNees, Wallace & Nurick, LLC
21 East State Street, 17th Floor
Columbus, Ohio 43215
sam@mwncmh.com
jclark@mwncmh.com

Colleen Mooney
David Rinebolt
Ohio Partners for Affordable Energy
231 West Lima Street, P.O. Box 1793
Findlay, Ohio 45839-1793
cmooney2@columbus.rr.com
drinebolt@aol.com

Glenn Krassen
Bricker & Eckler, LLP
1001 Lakeside Avenue, East, Suite 1350
Cleveland, Ohio 44114-1718
gkrassen@bricker.com

John Dosker
Stand Energy Corp.
1077 Celestial Street, Suite 110
Cincinnati, Ohio 45202-1629
jdosker@stand-energy.com

David M. Perlman
Bracewell & Giuliani LLP
2000 K Street NW, Suite 500
Washington, D.C. 20006-1872
david.perlman@bgllp.com

Sheila McAdams
Marsh & McAdams
City of Maumee
204 West Wayne Street
Maumee, Ohio 43537
sheilahmca@aol.com

Brian Ballenger
Ballenger & Moore
3401 Woodville Road, Suite C
Toledo, Ohio 43619
ballengerlawbjb@sbcglobal.net

Paul Goldberg
City of Oregon
5330 Seaman Road
Oregon, Ohio 43616
pgoldberg@ci.oregon.oh.us

James E. Moan
City of Sylvania
4930 Holland-Sylvania Road
Sylvania, Ohio 43560
jimmoan@hotmail.com

Leslie Kovacik
Department of Public Utilities
420 Madison Avenue, Suite 100
Toledo, Ohio 43604
leslie.kovacik@toledo.oh.gov

Barth Royer
Bell & Royer CO, LPA
33 South Grant Avenue
Columbus, Ohio 43215-3927
BarthRoyer@aol.com

Thomas J. O'Brien
Bricker & Eckler, LLP
100 South Third Street
Columbus, Ohio 43215
tobrien@bricker.com

M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour & Pease LLP
52 East Gay Street, P.O. Box 1008
Columbus, Ohio 43216-1008
mhpetricoff@vorys.com
smhoward@vorys.com

W. Jonathan Airey
Vorys, Sater, Seymour & Pease, LLP
52 East Gay Street, P.O. Box 1008
Columbus, Ohio 43216-1008
wjairey@vorys.com

Craig Goodman
National Energy Marketers Association
3333 K. Street, NW, Suite 110
Washington, D.C. 20007
cgoodman@energymarketers.com

Michael Dortch
Kravitz, Brown & Dortch, LLC
65 East State Street
Suite 200
Columbus, Ohio 43215
mdortch@kravitzllc.com

Lance Keiffer
Assistant Prosecuting Attorney
711 Adams Street, 2nd Floor
Toledo, Ohio 43624-1680
lkeiffer@co.lucas.oh.us

Paul Skaff
Leatherman, Wintzler, Dombey & Hart
353 Elm Street
Perrysburg, Ohio 43551
paulskaff@justice.com

Steve M. Sherman
Krieg DeVault LLP
One Indiana Square, Suite 2800
Indianapolis, IN 46204
ssherman@kdlegal.com

Stephan A. Ariyan
Sempra Energy Trading LLC
58 Commerce Road
Stamford, CT 06902
Stephan.ariyan@rbssempra.com

Lisa M. Simpkins
Christopher D. Young
Constellation Energy Resources
111 Market Place, Suite 500
Baltimore, MD 21202
Lisa.simpkins@constellation.com
Christopher.young@constellation.com

David M. Perlman
Bacewell & Guiliani LLP
2000 K Street NW, Suite 500
Washington DC 20006-1872
David.perlman@bgllp.com

Gary A. Jeffries
Dominion Retail, Inc.
501 Martindale Street, Suite 400
Pittsburgh, PA 15212-5844
Gary.a.jeffries@dom.com

Dane Stinson
Bailey & Cavalieri LLC
10 W. Broad Street, Suite 2100
Columbus, OH 43215
Dane.stinson@baileycavalieri.com

sseiple@nisource.com bleslie@nisource.com william.wright@puc.state.oh.us stephen.reilly@puc.state.oh.us dboehm@bkllawfirm.com lgearhardt@ofbf.org sam@mwncmh.com jclark@mwncmh.com cmooney2@columbus.rr.com drinebolt@aol.com gkrassen@bricker.com jdosker@stand-energy.com david.perlman@bgllp.com sheilahmca@aol.com ballengerlawbjb@sbcglobal.net pgoldberg@ci.oregon.oh.us jimmoan@hotmail.com Christine.pirik@puc.state.oh.us	leslie.kovacik@toledo.oh.gov BarthRoyer@aol.com tobrien@bricker.com mhpetricoff@vorys.com smhoward@vorys.com wjairey@vorys.com cgoodman@energymarketers.com mdortch@kravitzllc.com lkeiffer@co.lucas.oh.us paulskaff@justice.com ssherman@kdlegal.com Stephan.ariyan@rbssempra.com Lisa.simpkins@constellation.com Christopher.young@constellation.com David.perlman@bgllp.com Gary.a.jeffries@dom.com Dane.stinson@baileycavalieri.com

JOHN D. OIL & GAS (JDOG) - CONTRACTS

	Buyer	Seller	Date Signed	Term Start	Term End	Price	Amount	Type	Market	Source	Comments
1	JDOG	Decker Well Service	3/21/2008	3/1/2008	2/28/09 then mo to mo	NYMEX less $0.45/dth	1,000 dth	gas purchase	Churchtown	Sonderman email 3/9/11	
2	JDOG	Carlton Oil Corp	2/4/2008	2/1/2008	1/31/09 then mo to mo	NYMEX less $0.45/dth	N.A.	gas purchase	Churchtown	Sonderman email 3/9/11	
3	JDOG	Buckeye Oil Producing Co	3/1/2008	3/1/2008	2/28/09 then mo to mo	NYMEX less $0.20/dth	30 - 50 Dth/mo	gas purchase	Holmesville	Sonderman email 3/9/11	
4	JDOG	Belmont Oil Co	2/25/2008	2/1/2008	1/31/09 then mo to mo	NYMEX less $0.45/dth	180 Dth/mo	gas purchase	Churchtown	Sonderman email 3/9/11	
5	JDOG	B&E Resources	2/2/2010	2/1/2010	1/31/11 then mo to mo	NYMEX less $0.45/dth	Best Efforts	gas purchase	Churchtown	Sonderman email 3/9/11	
6	JDOG	Artex Oil Company	2/6/2008	2/6/2008	2/5/09 then mo to mo	NYMEX less $0.45/dth	100 dth/d	gas purchase	Churchtown	Sonderman email 3/9/11	
7	JDOG	Alliance Petroleum	2/4/2008	2/1/2008	1/31/09 then mo to mo	NYMEX less $0.45/dth	N.A.	gas purchase	Churchtown	Sonderman email 3/9/11	
8	JDOG	A & R Energy	2/20/2008	2/1/2008	7/31/09 then mo to mo	NYMEX less $0.45/dth	2,600 dth/mo	gas purchase	Churchtown	Sonderman email 3/9/11	6 month purchase agreement, then month to month
9	JDOG	EnerVest Operating	1/11/2010	2/1/2010	1/31/11 then mo to mo	3 rates	Best Efforts	gas purchase	3 systems	Sonderman email 3/9/11	Churchtown - NYMEX less $0.45/dth, Holmesville - NYMEX less $0.20/dth, North Trumbull - NYMEX plus $0.10/dth
10	JDOG	Kroll Energy	5/11/2010	4/23/2001	4/22/11 then mo to mo	NYMEX less $0.45/dth		gas purchase	Churchtown	Sonderman email 3/9/11	
11	JDOG	Noble Petroleum	3/1/2009	3/1/2009	2/28/10 then mo to mo	NYMEX less $0.45/dth	3,200 dth/mo	gas purchase	Churchtown	Sonderman email 3/9/11	
12	JDOG	Jerome Long	9/1/2009	9/1/2009	8/31/10 then mo to mo	NYMEX less $0.45/dth	unknown	gas purchase	Churchtown	Sonderman email 3/9/11	
13	JDOG	Kleese Development	2/20/2008	2/1/2008	1/31/09 then mo to mo	NYMEX plus $0.10/dth	300 dth/mo	gas purchase	North Trumbull	Sonderman email 3/9/11	
14	JDOG	J.R. Smail, Inc.	2/4/2008	2/1/2008	1/31/09 then mo to mo	NYMEX less $0.20/dth	N.A.	gas purchase	Holmesville	Sonderman email 3/9/11	
15	JDOG	Stonehouse Oil & Gas	7/21/2010	7/21/2010	7/20/11 then mo to mo	NYMEX less $0.45/dth	Best Efforts	gas purchase	Churchtown	Sonderman email 3/9/11	
16	JDOG	EnerVest Operating	1/11/2010	2/1/2010	1/31/11 then mo to mo	3 rates	Best Efforts	gas purchase	3 systems	Sonderman email 3/9/11	Churchtown - NYMEX less $0.45/dth, Holmesville - NYMEX less $0.20/dth, North Trumbull - NYMEX plus $0.10/dth
17	JDOG	Oxford Oil Company	3/1/2008	3/1/2008	2/28/09 then mo to mo	NYMEX less $0.20/dth	40 dth/mo	gas purchase	Holmesville	Sonderman email 3/9/11	
18	JDOG	Stevens Oil & Gas	2/20/2008	2/1/2008	1/31/09 then mo to mo	NYMEX less $0.45/dth	N.A.	gas purchase	Churchtown	Sonderman email 3/9/11	
19	JDOG	North Coast Energy	6/2/2008	2/1/2008	1/31/09 then mo to mo	2 rates	Best Efforts	gas purchase	2 systems	Sonderman email 3/9/11	Churchtown - NYMEX less $0.45/dth, North Trumbull - NYMEX plus $0.10/dth; contract term error?? - effective Feb 08 bu signed 6/3/08
20	JDOG	Northwood Energy Corp	5/14/2008	5/1/2008	4/30/09 then mo to mo	NYMEX less $0.20/dth	600 dth/mo	gas purchase	Holmesville	Sonderman email 3/9/11	

OOGA
Ohio Oil and Gas Association

Heat Content Agreement

On November 20, 2007, the Ohio Oil and Gas Association (OOGA) and Dominion East Ohio (East Ohio) announced a new agreement to enhance the value and improve the delivery of Ohio-produced natural gas flowing into the East Ohio system.

The new "Heat Content Agreement" (HCA) will have an eight year primary term that begins in 2008 and extends to April 30, 2016, with provisions that could stretch the agreement beyond 2016. The new HCA replaces a similar production enhancement agreement that has been in place since May 2003 and was set to expire in April 2009. If producers responsible for 90 percent of Ohio-produced natural gas throughput into the East Ohio system approve the agreement, the HCA will go into effect on January 2008 and the last year of the original 2003 agreement will replaced by the new agreement.

Under the new HCA, East Ohio commits to provide "first priority" access to Ohio-produced natural gas connected to the East Ohio system. East Ohio also agreed to implement two programs designed to increase access to the East Ohio system. The first is a new version of the original 2003 enhancement program that develops solutions fixing existing or expected constraints on the East Ohio low-pressure system -- the traditional entry point for most Ohio production.

The second program looks down the road to anticipate the impact of new supplies arriving from the western United States that could impose severe constraints on Appalachian production. Over the next three years, East Ohio will implement the "Low to High" project by building the necessary infrastructure to provide for Ohio-produced natural gas first priority access to East Ohio's high-pressure transmission system, where it can be delivered into East Ohio's storage system or to large on and off-system markets.

Finally, the new HCA will create a new agreement that provides for adjustments to Ohio-produced natural gas to reflect the real heating value of the gas. As part of the HCA, Ohio producers and East Ohio agree to adjust the existing fee arrangements to reflect an equal sharing of the value of the heat content adjustment.

On November 20, East Ohio sent to producers operating on the East Ohio system a descriptive package along with the contracts necessary to participate in the new program. Also enclosed were explanations of the program and its fees. OOGA and East Ohio urge Ohio producers to expeditiously review the package and the associated contracts.

Background: In 2003, both OOGA and producers were growing increasingly concerned that East Ohio's declining base-load burn would lead the company to place less value on managing its gathering system and encourage East Ohio to look elsewhere for revenues. East Ohio was leaving the merchant function and Ohio natural gas supplies were fading as a priority. Producers began looking for a new relationship with East Ohio -- one that could break the mold of the traditional tension dividing producing and pipeline interests.

At the time, the Association was also worried about the growing national trend of predatory pipeline operators purchasing gathering assets. OOGA was looking for ways to avoid scenarios seen in other states where operators were purchasing pipeline gathering and transmission assets and imposing excessive fees and unreasonable terms, driving down the value of natural gas reserves. OOGA and East Ohio joined forces to focus on gathering operations, make needed system improvements and improve the flow of Ohio production. Value was found in the better than normal Btu content of Ohio-produced natural gas.

The 2003 Production Enhancement Agreement gave East Ohio new reasons to focus its energy on its gathering system. Producers and East Ohio teamed up to put into operation new projects relieving bottlenecks on the gathering system that previously were not addressed. Ohio-produced natural gas began to flow, much better than before. Throughput that had been steadily declining to a low of 50 Bcf per year in 2003 reversed itself and climbed to 56 Bcf per year in 2006. As part of the deal, Ohio-produced natural gas was able to be sold at market prices. The value of Ohio producers' natural gas increased. OOGA and East Ohio created a win-win solution, producers and East Ohio mutually benefited, each enhancing their business goals. It was an agreement unlike any other in natural gas producing states.

Things change though. This time the change was driven by a boom in natural gas drilling that was causing migraine headaches for many producers, in many states, who were drilling into severely constrained pipelines. Ohio producers were looking across the borders to West Virginia and Kentucky where constraints, in some cases, made it nearly impossible to move new production, particularly in warm weather.

But, the mother of all problems looked like a T-Rex dinosaur; rushing eastward with its jaws wide open. Rocky Mountain producers with business acumen not often seen, had put together a $4.4 billion pipeline project and began construction of the 1,700 mile, 460,000 horsepower, "Rockies Express Pipeline" (REX). By 2009, REX will bring 1.8 billion cubic feet of gas per day from the Cheyenne Hub to eastern markets – actually to a hub at Clarington, Ohio in Monroe County, conveniently next to Dominion pipeline assets.

Rockies producers who this summer were experiencing ridiculous cash prices for their production – some for well under 50 cents per decatherm - appear elated at the prospect of accessing competitive markets. Conversely, Appalachian producers began steeling themselves for the opposite effect. Most analysts following REX are saying that the new pipeline will fundamentally change how natural gas flows across the nation. And, Appalachian producers could expect their here-to-now regionally advantaged access to local markets to be adversely impacted.

Indications that Dominion, in light of REX, would be taking a new look at how best to use its East Ohio and wider transmission assets were a warning sign that Ohio producers and East Ohio must look at the 2003 production enhancement agreement with fresh eyes. In early 2006, OOGA and East Ohio began an intense series of discussions to establish long term security and market access for Ohio-produced natural gas.

By May 2007, OOGA and East Ohio entered into a Letter of Intent stating principles of the new HCA. On November 20, the OOGA Board of Trustees unanimously approved executed contracts between East Ohio and OOGA memorializing the entire agreement and authorizing release of the agreement to Ohio producers for their approval.

The Heat Content Agreement

The HCA establishes a new "Low to High" project. This is in addition to expanding the existing improvement program commonly known as the "Project Review". East Ohio commits to provide "first priority" access to the receipt of Ohio-produced natural gas throughout its systems. And, East Ohio will provide to OOGA Services, LLC 1.0 Bcf per year of natural gas storage that will be used, in a plan not yet established, for the benefit of producers paying fees on the East Ohio system.

The HCA primary term begins in 2008 and extends to 2016, providing eight years of security with the possibility for extension under certain provisions.

There will be a new two-part fee structure – one permanent, and one temporary. The heat content fee replaces the existing production enhancement fee and it will equally split between producers and East Ohio the value of the heat content adjustment to Ohio-produced natural gas. East Ohio will also recover the Low to High investment through an additional $0.06 per Mcf surcharge that will expire once recovery of investment occurs. The two fees combined will not exceed $0.50 per Mcf. In other words, the maximum charge is capped at $0.50 per Mcf. Actually, absent unusually good market conditions, the combined fees will be lower than $0.50 per Mcf.

Finally, in the event a bona fide third party offer to purchase East Ohio's gathering system (or a significant portion of the gathering system), East Ohio grants to OOGA Services, LLC the right of last refusal to purchase from East Ohio the gathering asset under consideration at a price discounted to account for Ohio producers' investment through fees to upgrade the East Ohio system.

The Heat Content Agreement's essential terms are:

1. Priority Access for Ohio-Produced Natural Gas

· Low to High Project: Over the next three years, Dominion East Ohio (East Ohio) will spend $15 million on projects to improve and/or augment its current infrastructure to accommodate the movement of Ohio-produced natural gas from East Ohio's low-pressure systems to its high-pressure transmission systems. From there Ohio-produced natural gas can be delivered into East Ohio's storage system, off-system markets, and/or to on-system customers. As part of this commitment, East Ohio will engage in the necessary construction projects for East Ohio to meet a minimum deliverability of at least 30 Mmcf per day into the high-pressure system. These projects will include, but may not be limited to, the installation of significant compression stations. The Low to High Project is separate from, and in addition to, system upgrade commitments made by East Ohio that are contemplated under existing agreements and are reviewed by the Project Review Committee.

· Project Review Funds – Original Agreement, Remaining Funds: By December 31, 2007, East Ohio commits to spend the $2 million per year on system upgrades called for in the original agreement for a total of $10.1 million in capital that has been managed by the Project Review Committee

· Heat Content Agreement – Project Review Going Forward: Beginning in 2008 and for each year of the new Heat Content Agreement (HCA), East Ohio will spend $2.5 million annually for system improvements to further enhance the receipt of Ohio-produced natural gas into the East Ohio system. This is an additional $500,000 per year in capital commitment for the term of the Heat Content Agreement. As in the prior agreement, the Project Review Committee will control the funds and select the enhancement projects that will take place.

2. Commitments to Ohio-Produced Natural Gas:

· East Ohio will use all commercially reasonable efforts to provide Ohio-produced natural gas first priority access into East Ohio's high-pressure transmission system, where it can be delivered into East Ohio's storage system, to off-system markets, and/or to on-system customers.

· East Ohio will use all commercially reasonable efforts to provide first priority access to the receipt of Ohio-produced natural gas into its systems, including its gathering, transmission and distribution systems, over other sources of supply consistent with East Ohio's obligation to operate an open access system in accordance with state and federal regulatory requirements.

· For the term of the new HCA, East Ohio will annually provide OOGA Services, LLC, with the option to use up to 1.0 Bcf per year of its on-system natural gas storage at the prevailing maximum tariff rate applicable to comparable service.

3. Term of the Heat Content Agreement

· The primary term of the new Heat Content Agreement will be from January 1, 2008 through April 30, 2016. One-year evergreen periods will follow, with a 6-month written prior notice to terminate. The new program will become effective once producers responsible for 90% of existing Ohio throughput into the East Ohio system have agreed to the contract(s) implementing the HCA. An additional year may be added to the agreement should East Ohio, with OOGA's support, achieve certain regulatory provisions as part of rate case proceedings now underway at the Public Utilities Commission.

4. Fees

The fee structure that is part of the original agreement will change. There are two fees to consider in the new Heat Content Agreement:

1. The Heat Content Fee – Designed to commence as of the April 2008 production period.

2. The Low to High Project Surcharge - a fee collected by East Ohio to recover capital investment related to boosting Ohio-produced gas into the high-pressure system. The $0.06 per Mcf surcharge will commence as of the January 2008 production period. This fee will continue until East Ohio recovers their investment and will terminate at some point in the future.

· Heat Content Fee: Essentially, the producer and East Ohio will equally share the benefit derived from the heat content adjustment applied to Ohio-produced natural gas.

· The producer's share of the Btu adjustment monetary benefit is designed to be no less than 50% of the total Btu adjusted monetary benefit. That is very similar to the sharing arrangement at the start of the prior agreement. In order to ensure that benefit level, the production enhancement will be adjusted annually, effective with the April production period, in the following manner:

Heat Content Fee (HCF) = 0.5 x (BTUOhio/BTUInterstate – 1) x P (Generally, P is the sum of the NYMEX 12-month strip price for the period during which the adjusted rate will be in effect plus a basis adjustment)

· Events may occur as part of future rate proceedings that could change the value of the benefit East Ohio receives from the HCF. If that happens, the formula used to determine the heat content fee will be revised and the producer's share of the heat content adjustment will be 55 percent and East Ohio's share will be 45 percent. The parties expect to evaluate this situation on or about October 2011.

· Low to High Surcharge: As stated above, East Ohio commits to spend an additional $15 million for the Low to High Project. East Ohio will recover that $15 million, plus 15 percent (for a total of $17.25 million), through a $0.06 per Mcf surcharge. The surcharge will begin in January 2008. Upon cumulative payment of the $15 million plus 15%, the surcharge shall terminate. There is a credit applied to the surcharge of 25% of any increased collections by East Ohio prior to April 2009.

· The Combined Fee Limitation: This is important. The combined effect of the Heat Content Fee and the Low to High Surcharge shall not exceed $0.50 per Mcf.

5. Right of Last Refusal on Sale of the Gathering System:

· During the term of the Heat Content Agreement and for a period of time after it expires, East Ohio will grant to OOGA Services, LLC or its assignee the right of last refusal to purchase East Ohio's gathering system in the event East Ohio agrees, in an otherwise binding agreement with a bona fide third party purchaser, to sell all or a significant part of its gathering system as part of a transaction that does not involve the sale of East Ohio in its entirety. As part of the right of last refusal, OOGA Services, LLC or its assignee will have the right to acquire that part of the East Ohio gathering system included in the transaction for a price equal to the price agreed to be paid by the bona fide third party purchaser less all gathering system capital expenditures that relate to the part of the gathering system involved in the transaction, net of depreciation, made by East Ohio pursuant to the HCA and the original agreement since its inception in May 1, 2003. If East Ohio in its entirety is sold to another company during the term of the agreement, this agreement and the terms of this paragraph will transfer with the sale.

What Needs to Happen Now?

On November 20, East Ohio sent Ohio producers operating on East Ohio a package detailing the program. Enclosed in the package is a Heat Content Agreement (Attachment D) and a Supplement to Gas Purchase Contract (Attachment E).

- **The Heat Content Agreement must be signed and returned to East Ohio.**
- **The Supplement to Gas Purchase Contract must be signed and returned to the Producer's respective gas marketer(s).**

After commencement of the primary term of this agreement all agreements previously entered into by and between East Ohio and Producer addressing a heat content adjustment shall terminate.

If a producer delays execution of the Heat Content Agreement, but does execute the Agreement at a later date, the Producer will be required to pay "catch-up" fees to obtain the benefits of the Heat Content Agreement.

East Ohio directs producers to return the executed Heat Content Agreement to East Ohio at the address below.

Brent Breon
Dominion East Ohio
7015 Freedom Ave., NW
North Canton, OH 44720

To assist you in directing any questions you may have to the appropriate East Ohio or OOGA personnel, please use the following information as a guideline:

For general questions, please contact:
Brent Breon, East Ohio: 330-266-2130
Tom Stewart, OOGA: 740-587-0444

For transportation contract questions, please contact:
Dina Gallaway, East Ohio 216-736-6559
Kim Manning, East Ohio 216-736-6385

Additional Resources

Documents from Dominion East Ohio:

Letter to Producers
Attachment A: Essential Terms
Attachment B: New HCA Fee Calculations
Attachment C: Btu Conversion Value Illustration
Attachment D: Heat Content Agreement
Attachment E: Supplement to Gas Purchase Contracts

Additional Documents:

Chart Explaining How the BTU Conversion Works
Dominion East Ohio's Approved Marketers List

ODNR Home | Jobs | Contact ODNR

Search GO

DMRM Home | Regulation | Restoration | Contacts | Mine & Well Locators | Education | Calendar

ODNR Division of Mineral Resources Management - Oil and Gas

Oil and Gas Program History

Oil & Gas
Shale Development
Coal Mining
Industrial Minerals
Mine Safety
Abandoned Mine Land

The Division of Mineral Resources Management's oil and gas programs were incorporated into the Ohio Department of Natural Resources (ODNR) in 1965 to regulate drilling and production of Ohio's oil and gas resources.

Most of Ohio's 64,378 active wells are classified as "stripper" wells or wells that produce less than 10 barrels (42 gallons per barrel) of oil per day or less than 60 thousand cubic feet (mcf) of gas per day.

In 2010, Ohio wells produced more than 4.78 million barrels of oil and more than 78 billion cubic feet of natural gas. Market value for oil and gas production totaled nearly $718 million dollars. Even though Ohio's gas production accounts for only 12% of Ohio's consumption, it is equivalent to the amount required to heat more than 1 million homes and businesses. In 2010, Ohio's natural gas and crude oil producers generated royalty payments to landowners amounting to over $44 million, and provided an additional $3.6 million per year in free "natural gas" to mineral interest owners.

In 2010, the Division of Mineral Resources Management:

- Released 2009 annual statements of production. This data (51,230 records) is available by county or for the entire state
- Issued 1,512 permits, including 651 permits to drill (a 11% decrease) and 740 permits to plug (an increase of 16.7%)
- Performed more than 13,138 site inspections
- Witnessed over 89% of 429 plugging operations under Division jurisdiction
- Plugged 12 orphan wells, including four funded through the Landowner Grants Program
- Continued to receive favorable reviews by US EPA for management of the Underground Injection Control (UIC) Program
- Inspected brine injection wells once every eleven weeks on average, the highest inspection frequency for any UIC program in the nation

In 2010, the Ohio oil and gas industry:

- Drilled an estimated 431 oil and gas wells in 44 counties
- Cuyahoga County was the most active county with 37 wells drilled
- Over 230 wells were drilled to the Clinton sandstone in 21 counties
- Oil production: 4,784,690 barrels
- Value of oil production: $356 million
- Gas production: 72,121,503 mcf
- Value of gas production: $362 million

ADDITIONAL INFORMATION

➤ To learn more about the early days of the oil and gas industry, Colonel Drake, the Drake Well Museum located in Titusville, Pennsylvania, and some of the other early pioneers of the oil and gas industry.

➤ 2010 Summary of Ohio Oil and Gas Activities for current trends or more information regarding Ohio's oil and gas activities.

FAQs
- About Oil and Gas
- Leasing and Drilling

Public Information
- Shale Drilling Resources
- Shale Drilling Fact Sheet
- Best Management Practices for Pre-Drilling Water Sampling
- Senate Bill 165 Updates
- Material Safety Data Sheets (MSDS)
- Oil & Gas Law Summary
- Mandatory Pooling
- Enforcement Services
- About Leasing
- Orphan Well Program
- 2010 Oil & Gas Report

Field Inspectors

Electronic Forms

Oil and Gas Well Search

Emergency Response

Final Nonappealable Orders for Material and Substantial Violations (RC 1509.041)

Urban Drilling Requirements

Law and Rules

Surveyor Well Plat Requirements

Designated Coal Bearing Areas

Ohio's Oil and Gas History

Perhaps the least known fact about the State of Ohio is its long and colorful history in the oil and gas industry, dating back to the mid-1800s. The first commercial production of oil in Ohio was discovered in Macksburg (Washington County) in 1860. As of 2010, the number of oil and gas wells drilled in Ohio reached 275,774 wells yielding 1.136 billion barrels of crude oil and more than 8.52 trillion cubic feet of natural gas.

Ohio remains a leading producer of oil and gas, ranking in the top half of all producing states in the nation. Research completed by ODNR's Divisions of Mineral Resources Management and Geological Survey indicates that Ohio has significant remaining producible oil and gas reserves.

Following are additional facts and information which may be of interest to you regarding one of Ohio's most precious, but little known, natural resources.

Ohio's Oil and Gas History:

- Deepest well drilled in Ohio: 13,727feet in 1910 (Belmont County)
- Deepest producing well in Ohio: 8,794 feet in Harrison County
- First year of production: Oil - 1860; Gas - 1884
- Year and amount of peak production:
  - Oil: 23,941,000 barrels in 1896
  - Gas: 186.5 billion cubic feet in 1984
- Total number of wells drilled: 275,774; Ohio ranks 4th nationally behind Texas, Oklahoma and Pennsylvania.

Production / RBDMS

Permitting, Hydrology and Bonding

Underground Injection Control (UIC)

Salt Solution Mining

Environmental Lab Services

Awards

Additional Resources:

Division of Geological Survey

FracFocus (joint project of GWPC & IOGCC)

Interstate Oil and Gas Compact Commission

US Army Corps of Engineers

Ground Water Protection Council

Ohio Oil and Gas Association

Ohio Oil and Gas Energy Education Program

Ohio Public Utilities Commission

Map to Our Offices:
Fountain Square, Building H-3

Office Hours:
Monday - Friday
8:00 A.M. to 5:00 P.M.

For general information email your questions here.

Public Record Requests can be emailed or directed to (614) 265-6901.

Columbus Address:
Mineral Resources Management
2045 Morse Rd.
Building H-3
Columbus, OH 43229-6693
(614) 265-6633

Fax H-2 (614) 265-7999
Fax H-3 (614) 265-7998

FILE

REPORT TO THE

PUBLIC UTILITIES COMMISSION OF OHIO

ON THE

MANAGEMENT AND PERFORMANCE AUDIT

OF GAS PURCHASING PRACTICES AND POLICIES OF

EAST OHIO GAS COMPANY

CASE NO. 07-219-GA-GCR

NOVEMBER 2007

PREPARED BY:

EXETER
ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, Maryland 21044

adjustments to the New York Mercantile Exchange ("NYMEX") monthly settlement price ("Retail Adjustment Price"). The auction process resulted in a monthly SSO rate equivalent to the monthly NYMEX settlement price plus a fixed adjustment of $1.44 per Mcf. Exclusive of the expected seasonal differences in gas prices, which can change rapidly and significantly, DEO's GCR rate can be expected to be equal to the NYMEX settlement price plus an adjustment of approximately $1.75 per Mcf.

Under the Phase 1 transition, suppliers were to be sold gas in storage inventory which DEO had purchased during the summer of 2006. At the time of the auction, the difference between summer 2006 and winter 2006-2007 gas prices was extreme, exceeding $4.00 per Dth. Suppliers bidding in the SSO auction factored this difference into their bidding decisions. DEO estimates that the seasonal differences in gas prices which existed at the time of the auction on the storage inventory to be sold alone was a reduction of 48 cents per Mcf in the price suppliers were willing to bid. Shortly thereafter, the seasonal differences in gas prices declined significantly. If the SSO auction had been held one month later, it is estimated that the effect of the seasonal differences in gas prices on the SSO price would have been 3 cents per Mcf. Thus, the SSO bid price is extremely sensitive to market conditions at the time of the auction. Although another SSO auction is not anticipated, if one were to be held, the sensitivity of the SSO price to current market conditions suggests that several auctions at different points in time should be conducted to diversify price risk.

A company-specific requirement of the audit is to compile a list of services that were provided by DEO under its GCR merchant function. If these services are still being provided by DEO under Phase 1 of its SSO pilot program, the auditor is to identify how the costs associated with each service are being recovered. If these costs are being recovered through more than one mechanism, the auditor is to determine if cost recovery is duplicative. Our analysis of DEO's SSO service offerings and its various cost recovery mechanism indicate that, conceptually, no double recovery of costs should occur. However, the cost recovery procedures provided for under Phase 1 are guidelines rather than explicit and detailed procedures. DEO will file an annual financial

OHIO NATURAL GAS AUCTION REVIEW

Auction Date	Type	Period	Company	RPA	prior day 12 month strip	Difference from prior year	Cost or Savings of Shrinkage @ 4%	
August 29, 2006	SSO	10/06 - 8/08	Dominon	$ 1.44	$ 9.1090	$ -		
July 22, 2008	SSO	9/08 - 3/09	Dominon	$ 2.33	$ 10.7780	$ (1.67)	$ (0.07)	cost
February 10, 2009	SSO/SCO	4/09 - 3/10	Dominon	$ 1.40	$ 5.4120	$ 5.37	$ 0.21	savings
February 9, 2010	SSO/SCO	4/10 - 3/11	Dominon	$ 1.20	$ 5.8360	$ (0.42)	$ (0.02)	cost
March 1, 2011	SSO/SCO	4/11 3/12	Dominon	$ 1.00	$ 4.4995	$ 1.34	$ 0.05	savings
August 19, 2008	SSO	10/08 - 3/10	Vectren	$ 2.35	$ 8.6070	$ -		
January 12, 2010	SSO/SCO	4/10 - 3/11	Vectren	$ 1.55	$ 5.8890	$ 2.72	$ 0.11	savings
January 18, 2011	SSO/SCO	4/11 3/12	Vectren	$ 1.35	$ 4.7104	$ 1.18	$ 0.05	savings
February 23, 2010	SSO/SCO	4/10 - 3/11	Columbia	$ 1.93	$ 5.3740	$ -		
February 8, 2011	SSO/SCO	4/11 3/12	Columbia	$ 1.88	$ 4.4568	$ 0.92	$ 0.04	savings