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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia Gas of Ohio, Inc. For Authority to Make Monthly Adjustments to the Expected Gas Component of its Gas Cost Recovery Rate	)))))	Case No. 04-1916-GA-UNC

COMMENTS IN SUPPORT OF THE APPLICATION
WITH SUGGESTED AMENDMENT
BY
DIRECT ENERGY SERVICES LLC, SHELL ENERGY SERVICES, LLC,
VECTREN RETAIL LLC, AND WPS ENERGY SERVICES, INC.

INTRODUCTION

Now come Direct Energy Services, LLC, ("Direct Energy"), Shell Energy Services, LLC, Vectren Retail LLC (d/b/a Vectren Source), and WPS Energy Services, Inc. (hereinafter "Ohio Marketers Group") all of whom are competitive retail natural gas providers active on the Columbia Gas of Ohio system and provide the following comments supporting the application filed by Columbia Gas of Ohio ("Columbia") on December 29, 2004 in the above styled proceeding. The Ohio Marketers Group also concur with the Comments of the Office of the Ohio Consumers' Counsel and suggest a clarification to the Application which will meet the Consumers Counsel's concerns. Finally, the Ohio Marketers Group propose that the Commission delay ruling on Columbia's request to revert to a quarterly Gas Cost Recovery mechanism without monthly adjustment for the non-heating months until the experience of the monthly adjustments can be evaluated. Thus, Ohio Marketers Group respectfully request that the Commission order Columbia to clarify its procedure for documenting use of rates other than from the posted New York

Mercantile Exchange ("NYMEX") for the commodity portion of the EGC and to continue submitting monthly GCR filings until experience has been gained on whether a different approach is required for the summer months.

COMMENTS

A. Support for Columbia's Application

On December 29, 2004 Columbia applied to the Public Utilities Commission of Ohio (the "Commission") for authority to make monthly adjustments to the Expected Gas Cost Recover ("EGC") component of the Gas Cost Recovery ("GCR") mechanism in accordance with the rule changes proposed by the Commission in Case No. 03-1384-GA-ORD. Specifically, Columbia proposes that during the heating season months of November through April it be permitted to adjust the EGC based on the future prices listed on the New York Mercantile Exchange (NYMEX) during a five day period prior to filing. Columbia would continue to calculate the actual adjustment and the balancing adjustment components of the GCR quarterly. The winter EGC adjustment filing would be made 14 days prior to implementation. This would give the pubic notice prior to billing and permit cost comparisons for retail customers who wish to shop for their gas supplies.

The goal of the proposed monthly adjustments is to better track the market price for natural gas. The need to have a mechanism that more closely fits the natural gas market was aptly demonstrated this past fall quarter when market prices for natural gas spiked in September \ October only to fall in November and December. Columbia, caught in a volatile natural gas market, sought interim increases in its quarterly EGC to meet the spike (Case No. 04-1715-GA-GCR). By the time the Commission came to rule on the interim relief, the market had retreated, but with no indication as to whether the downward trend would continue or a new spike would form. The current GCR rules provide that a month before the quarter the local distribution company is to forecast its natural gas acquisition price for the upcoming quarter. To the degree that a local distribution company purchases of natural gas exceed or fall below the forecast, the difference is "trued up" in the actual and balance adjustment clauses. In the end, the local distribution company is made whole, but the adjustments distort the purchasing options for customers. Since customers must pay these true up adjustments for up to a year after they stop buying GCR gas, these past corrections directly affect present and future natural gas price comparisons for retail customers who are shopping.

If the adjustments were insubstantial, the inaccuracy of the EGC would be an academic point and not greatly affect gas supply and marketing. The problem is given the volatility of natural gas prices the adjustments are often very large. The adjustments have been totaled as high as $1.88[1] an Mcf. Currently, the Columbia adjustments are 88¢, roughly 10% of the GCR.

The adjustments also present an equity issue for the customers who buy GCR service. The retail customer who made purchases from the local distribution company when the EGC under-priced the natural gas may not be the customer paying the true up adjustments in subsequent quarters. Similarly, customers, particularly new customers, may have to pay for previously under priced gas they did not receive. In sum, any true up method because of the time lag between initial pricing and correction creates cross subsidies among the customers. As noted above because of the volatility of gas prices these adjustments have tended to be large. Thus, it is not surprising that the Commission, in its November 23, 2004 Entry in Case No. 04-1715-GA-GCR, held:

> Quarterly filings are appropriate during periods of stable prices but, as the current situation illustrates, more frequent updates are necessary to better react to the market during periods of such extreme price volatility. This recent experience argues against a return to quarterly filings after the period covered by this entry expires.

[1] 2nd Quarter 2003

Ohio Marketers Group support Columbia's basic approach of making monthly adjustments to the EGC based on NYMEX prices with a 14 day lead time. This appears to be a workable approach that will track the market and hopefully lessen the magnitude of the adjustments. This is a worthwhile goal, for reducing the adjustments reduces the price distortions and reduces the amount of temporal cross subsidies.

B. Consumer Counsel's Objections

The Office of Consumers' Counsel, in its comments of January 7, 2005, notes that Columbia provides no detail as to how it will apply the NYMEX pricing to its EGC, and in fact reserves the right to adjust the NYMEX rates "..if they do not appear to reflect realistic expectations for the coming month". The Consumer's Counsel is concerned that since no criteria is provided for how the NYMEX rate would be adjusted, the application leaves too much discretion in the hands of Columbia. It appears to the Ohio Marketers Group that most of this concern could be addressed if Columbia clarified that it would apply the NYMEX price unless there were extraordinary circumstances, and that such would be noted contemporaneously in Columbia's records subject to prudence review during the next management audit. The Application should also state affirmatively that the basis, the cost of transport and storage, would be calculated separate and apart of the NYMEX price and fully disclosed in the GCR filing as it is done today.

C. Reversion To Quarterly Pricing

A unique feature of the Columbia application is the request to return to regular quarterly filings without monthly adjustments during the non-heating season.[2] Ohio Marketers Group ask the Commission to delay ruling on that part of the request until experience with the monthly adjustments can be evaluated. Currently, both Vectren Energy Delivery Ohio and

[2] December 29, 2004 Application paragraph 8

Cincinnati Gas & Electric Company are on monthly adjusted GCRs seemingly without problems. Similarly, Dominion East Ohio, who filed a very similar request to Columbia's, has not addressed the post-heating season. For uniformity alone, keeping Columbia on a monthly adjustment if that is the method used by all the other local distribution companies has merit.

Columbia may be favoring quarterly pricing in the non-heating season for fear that on a monthly EGC based on NYMEX may under state Columbia's acquisition cost, especially if the NYMEX price is depressed due to storage injection limitations. Rather than revert to quarterly pricing, though, such an issue may be addressed by using the NYMEX strip price or a weighted average of several months in the Summer. A better time for deciding how to address the summer adjustments, both for Columbia and East Ohio, will be after some experience with monthly adjustments has been gained.

CONCLUSION

WHEREFORE, for the reasons stated above, Ohio Marketers Group request the Commission approve the Application for Columbia Gas of Ohio to make monthly adjustments to its EGC through the heating season, and for the Commission to review that experience before approving a reversion to quarterly EGC pricing for the non-heating months.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Comments were served upon the following persons via first-class U.S. mail, postage prepaid, this 11th day of January, 2005.

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