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COMMISSION

July 29, 2010

Via Hand-Delivery
Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

RE: *Case No. 2010-00146; An Investigation of Natural Gas Retail Competition Programs*

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies of Interstate Gas Supply Inc.'s, SouthStar Energy Services, LLC's and Vectren Source's collective data request responses to AARP.

Please place the document of file.

Regards,

Matthew Malone

C: File; Parties

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF NATURAL GAS RETAIL COMPETITION PROGRAMS	))	CASE NO.2010-00146

**INTERSTATE GAS SUPPLY, INC.'S,
SOUTHSTAR ENERGY SERVICES, LLC'S AND
VECTREN SOURCE'S
INITIAL DATA REQUEST RESPONSES TO
THE AARP**

FILED: July 29, 2010

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In re the Matter of:

AN INVESTIGATION OF NATURAL GAS RETAIL COMPETITION PROGRAMS	))))	**CASE NO. 2010-00146**

VERIFICATION OF GREGORY F. COLLINS

Comes the undersigned, Gregory F. Collins, being duly sworn, deposes and states that he is President of Vectren Retail, LLC. d/b/a Vectren Source, that he has read the foregoing responses and exhibits and knows the matters contained therein; that said matters are true and correct to the best of his knowledge and belief.

Gregory F. Collins

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF FAYETTE)

Subscribed and sworn to me this 29th day of July, 2010, by Gregory F. Collins.

Notary Public

My Commission Expires: 11/21/2011

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF NATURAL GAS	)	
RETAIL COMPETITION PROGRAMS	)	CASE NO.2010-00146

INTERSTATE GAS SUPPLY, INC.'S, SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S CERTIFICATE OF SERVICE REGARDING DATA REQUEST RESPONSES TO AARP

Comes now Interstate Gas Supply, Inc., Southstar Energy Services, LLC and Vectren Source, individually, and collectively, by counsel, and hereby certify that an original and twelve (12) copies of the attached data request responses to AARP were served via hand-delivery upon Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615; furthermore, it was served by mailing a copy by first class US Mail, postage prepaid, on the following, on this 29th day of July 2010:

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Counsel for,
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VECTREN SOURCE

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 1

For Mr. Collins, with respect to your testimony at p. 2, is it your testimony that only through retail competition is it possible to offer gas consumers in Kentucky price transparency, timely price signals, and information on which they can make consumptions decisions? If so, why?

Response:

Absent a fundamental change in traditional regulated pricing paradigms which include prior period true-ups and estimated gas costs, competition provides the truest price transparency and most timely price signals of which I am aware.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 2

For Mr. Collins, with respect to your testimony at p. 2, how many retail gas customers (whether from competitive suppliers or from monopoly utilities) were there in the United States at the time that 5,100,000 such customers had access to competitive suppliers?

Response:

Objection. This question calls for information not possessed by the witness. Witness Collins referred to the U.S. Energy Information Administration as support for his statement listed on page 2 of his testimony which referred to 35 million residential natural gas customers having access to choice in 2009 and 5,100,000 were enrolled in Choice rather than had access to competitive suppliers. The AARP's request for the total number of natural gas customers with or without access to choice in the United States at that time is requesting information that the witness does not possess.

PSC Case No. 2010-00146
AARP DR No. 003
Respondent: Greg Collins
Matthew Malone, Esq. (as to objection)

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 3

For Mr. Collins, with respect to your testimony at p. 2-3, is it your testimony that there are no normative standards for success of choice of retail gas suppliers beyond perceptions of customer satisfaction? For example, if customers are satisfied but the underlying industry structure contains weaknesses that could ultimately lead to higher prices or less reliable supply, is it good public policy to require an industry structure that has this result?

Response:

With respect to Witness Collins testimony, no, it is not his testimony that the success of choice retail gas suppliers lacks normative standards.

With respect to the second question, specifically, the hypothetical posed by AARP, IGS, SouthStar and Vectren object based upon this question being argumentative and speculative. This question poses a hypothetical upon which Mr. Collins is requested to speculate based upon an argumentative assumption as to the conclusion.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 4

For Mr. Collins, with respect to your testimony at p. 3, please provide any analyses or other evidence to support your testimony that the benefits of competition are maximized when the market is most dynamic, and that market dynamism is manifested by criteria including the number of competitive suppliers in the market, the number of product options available in the market, the number of customers who migrate from utility sales service to competitive supply service, and the minimization of barriers to supplier market entry.

Response:

At the outset, this Request mischaracterizes a number of elements in Mr. Collins' testimony at p. 3, specifically it asserts that Mr. Collins' testimony implies that a dynamic market is demonstrated by a larger number of competitors, products and the number of customers that have migrated to competitive service, when in fact Mr. Collins' testimony asserts that if a properly structured market exists, with limited or low barriers to entry, it is more likely rather than less likely that suppliers will be present, typically in greater numbers than in an improperly structured market with higher barriers to entry, and that offers will be more numerous, dynamic and available. For instance, if a market structure is one of a pilot in nature, with relatively short windows of certainty, it is less likely that new entrants will explore the market, and those in the market will be less likely to put offers into the market due to the uncertainty of continued viability. With higher and greater barriers to entry, less competition will exist and that which does exist will be less dynamic.

Likewise, attached are several documents, including testimony by Dr. Robert Lawson filed in the Dominion East Ohio Merchant Function exit case, as well as the Staff reports to the Public Utility Commission of Ohio in the DEO and COH SSO and SCO auctions delineating the lower competitive price as compared to the regulated monopoly GCR.

FILE

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company, dba Dominion East Ohio, for Approval of a Plan to Restructure Its Commodity Service Function.	)	Case No. 05-474-GA-ATA

DIRECT TESTIMONY

OF

DR. ROBERT LAWSON

ON BEHALF OF THE OHIO GAS MARKETERS GROUP

November 15, 2005

Q1: Please state your name and business address.

A1: Robert A. Lawson
Professor of Economics & George H. Moor Chair
Capital University
School of Management
1 College and Main
Columbus, Ohio 43209-2394

Q2: On whose behalf are you offering direct testimony?

A2: I am testifying on behalf of the Ohio Gas Marketers Group.

Q3: Would you please summarize your educational, publications and work experience?

A3: I earned a B.S. degree (summa cum laude) in economics from the Honors Tutorial College at Ohio University in 1988, an M.S. and Ph.D. in economics from Florida State University in 1991 and 1992 respectively.

I taught at Shawnee State University in Portsmouth, Ohio from 1992-1996. Since then, I have been a professor at Capital University in Columbus, Ohio, and have been promoted first from assistant to associate professor in 1999 and then to full professor in 2002. In 2001, I was awarded the George H. Moor Chair at Capital. I have taught over a dozen different courses but specialize in teaching political economy, price theory-microeconomics, public finance, labor, and comparative systems. I have worked with various public policy institutes including the Buckeye Institute, the Fraser Institute (Canada), the Cato Institute, the National Center for Policy Analysis, the Mackinac Institute and others.

I have authored nine editions of the *Economic Freedom of the World*, an annual report that benchmarks the progress toward economic liberalism around the world. This report has been cited widely in the popular press (including for example, *The Economist*) and in over 200 academic journal articles. I am the author of 14 journal articles, 7 articles published in edited volumes, 4 book reviews, 12 policy reports and numerous other shorter works.

Q4: What is the purpose of your testimony today?

A4: To address the following issues:

Benefits of a market based pricing in general. The simplest and most primitive function of prices in any market is to serve as a rationing device to equate the quantities of a good available from suppliers with the quantities desired by the buyers. One risk associated with any paradigm in which non-market based prices are charged is that the price will be set so that these two quantities do not meet and there will be a shortage (if the price is "too low") or a surplus (if the price is "too high"). But this function of "clearing the market" is in many ways not the most important function of prices.

The real advantage of market based pricing is how market prices communicate information and provide proper incentives to buyers and sellers. Nobel Laureate F.A. Hayek best described this function of prices in his 1945 article, "The Use of Knowledge in Society." If the supply of a particular commodity is temporarily short or if the demand is temporarily high (it does not matter which and it is important that it does not matter which), the price of this commodity will rise. This price increase will immediately communicate to people all that they need to know: They had better economize on the use of this commodity. Market prices also send important, and underappreciated, signals to suppliers. Higher prices encourage producers to try to expand production or divert it from other areas to the area of the highest value. Natural gas and other utility markets often face significant shifts in both supply (e.g., Katrina) and demand (e.g., hot summers and cold winters) that need to be dealt with in some manner. The decentralized market price system, as Hayek argued, handles these things more efficiently than any other centralized method.

<u>Problems with government set rates in general</u>. Generally speaking governments set rates try to mimic market rates so that if supply and demand conditions dictate an increase in price then the government will *eventually* increase the price and if the supply and demand conditions dictate a decrease in price then the government will *eventually* decrease the price. The problem lies in the word *eventually*. Suppose there is a temporary disruption in natural gas supplies as recently witnessed. The fact of the matter is that we have less natural gas and nothing can be done to alter this fundamental fact at least in the short run. Consumers have to cut back on the use of gas. There is no other option. The question is how to achieve this. If we are using market pricing, then the problem is efficiently solved by increasing the price. People will see the higher price and will find ways to use less. To be sure this is a very difficult thing to do, and people are inclined to blame the price or the market in general for this disruption to their daily lives and pocketbooks, but the price is merely the messenger. The problem was that gas supply was disrupted. If we have government set pricing, then what happens to price during the period of this disruption? The answer is nothing. The price has been set for the period in question and that is that. Consumers will not get the information to economize on gas and so they will not. Shortages are one possible result. Another possible outcome is that the government would have to step in to arbitrarily reduce use by some users (one example of this is rolling brownouts in electricity markets). In short, government based pricing fails to send the proper signals to consumers (and producers) when supply and demand conditions

change. To be sure, the government price will eventually catch up to the market, but it will do so *in the wrong time period.*

There is another potentially serious problem with government set pricing. The standard analysis assumes that the government sets prices with the interests of the public in mind with an eye toward getting the lowest possible price to consumers consistent with the firms receiving a normal rate of return on their investment. But what if the government price setters in fact set prices to heed the wishes of the producers? Nobel Laureate George Stigler wrote about the ability of regulated firms to "capture" regulators. This is possible not so much through any type of corruption as by controlling and managing the flow of information to the regulatory agency. The evidence from the price regulation of both the airline and trucking industries is quite clear. The regulatory agencies (the Civil Aeronautics Board for the airlines and the Interstate Commerce Commission for trucking) in fact set prices *above* competitive market rates. When market pricing began in the late 1970s (airlines) and early 1980s (trucking), prices to consumers fell dramatically.

<u>Role of the Commission as market monitor</u>. I think the role of the regulatory commission should not be to set rates but to assure that the market is as competitive as possible. One approach is to focus on detecting and enforcing antitrust law, but another important function is for the Commission to set the rules of entry as low as possible to foster a contestable market.

Q. 5 Some of the parties to this proceeding have questioned what the value is of having market based rates, as opposed to a cost of service rate from a monopoly provider? What are the advantages of using market based pricing?

A.5 First, the biggest problem with any government pricing model based on cost of service is in determining the cost of service. All costs, like prices are subjective and are not easy to measure. To take a simple example, suppose we have Firms A and B with identical cost structures as shown in their balance sheets and income statements and so forth. Firm A is in a risky business though and faces a 50% chance of bankruptcy while Firm B faces only a 10% risk of bankruptcy. Risk is a cost of doing business and firms have to be compensated for it, so the price charged by Firm A will end up being higher than Firm B in a competitive market. This is right and proper, but one wonders what a regulator would do if tasked with the job of setting prices for both firms? It is quite reasonable to assume that the regulator using the information available (identical looking accounting costs) would set the price the same for both firms. This would be a mistake and could in fact drive Firm A out of business. The basic problem is that accounting statements do a good job of tracking some costs (primarily for tax purposes) but there are many costs not well accounted for (risk is one of them, the cost of using owned assets is another) and setting prices based on costs is not as easy as it sounds.

Second, who provides the information about the cost of service? The firm itself! Thus the regulated firm (unlike firms in competitive marketplaces) has an incentive to overstate or inflate costs inasmuch as the government has guaranteed a price high enough to cover them. In a market environment, firms are not guaranteed a price high enough to cover costs. Many firms in fact fail to cover costs and thus go out of business. The lack of a guarantee is a powerful force that motivates firms in markets to provide products that people desire at the lowest possible cost. Regulated firms lack such incentives and we must conclude that they will be less diligent about keeping costs low and service levels high. Again, the evidence from the regulation of trucking and airlines is instructive. After deregulation, prices (and costs) fell dramatically.

Q6: Are there times that market based pricing would not be appropriate?

A6. Yes. Market pricing is less than fully efficient in three important areas: monopoly, public goods, and externalities. The latter two are not factors in the natural gas market and are not relevant to this testimony. The argument about monopoly can be broken down into two parts: natural monopoly and collusion.

A natural monopoly can be defined as a situation in which a single firm can effectively supply an entire market place at lower average cost than could be achieved using any larger number of firms. This is an argument about economies of scale basically. The nature of technology may exist so that having more than one firm in the market would result in higher average costs for everyone. The cost advantages of the single large firm would dictate that a single large firm would prevail in the competition of the market. The problem is that once a single large firm is established, it is likely to act like a monopolist and charge a high monopoly price. An argument for government price regulation often rests on the desire to regulate such natural monopolies. A plausible argument can be made that the natural gas distribution network (at the retail level at least) is a natural monopoly. Having multiple competing gas lines running to homes and businesses is likely to be more expensive for everyone than have a single gas line. But this case is not about the distribution network; it is about the production and sale of the natural gas itself as distinguished from the problem of transporting the gas to peoples' homes and businesses. There is no argument that I am aware of that suggests that there are significant economies of scale in the production of natural gas itself. Many natural gas suppliers can simultaneously exist in the market without causing an increase in average costs for the gas itself.

Even if the market is not a natural monopoly we must still be concerned with the possibility that firms will collude to act like a monopoly. In the case of natural gas, my understanding is that the number of suppliers is sufficiently large that collusion is not likely, and most importantly the market appears to be open to new entrants should collusion take place.

The bottom line is that there are special cases in which market based price is problematic. The good news is that these cases do not apply in the case of the production/sale of natural gas.

Q.7 Would consumers be better served by having access to market based pricing if the customer chooses to shop, but have the utility administrated GCR as a safety net of a cost of service based default supply?

A.7 If a supplier does not choose a supplier or if the natural gas supplier chosen goes bankrupt or otherwise fails to serve, then we need a mechanism for getting the consumers a new supplier quickly as a matter of public policy. Default commodity supply can be effectively assured by guaranteeing consumers a provider of natural gas if they fail to choose their own supplier or if the supplier fails to deliver. There is no reason however that the price charged by the default provider, whoever that may be, should be set in any manner different than the price set by other firms from whom the consumer can choose.

The important safety net is in having a default provider not in having a government regulated price.

In the long run, the simple fact is that consumers are going to pay for their natural gas. With market based prices, we allow supply and demand to set price as we go. With government pricing, the government also uses information from supply and demand to set prices though it does so in an ill-timed manner always playing "catch up" with the market. There is little price difference in the long run between the two approaches (though there are important short run differences as noted earlier).

For consumers worried about the short run risks associated with fluctuating prices in a market environment, there are always ways to contract away risk (at some price). My understanding is that the natural gas providers offer an array of fixed and flexible price contracts for different contractual lengths of time. Consumers who are risk averse can contract for fixed prices if they are concerned about this.

Q8 One of the factual issues to be determined by the Commission in this matter is whether the East Ohio service area has a competitive natural gas market. What are the characteristics of a competitive market?

A8. Let me begin by defining a competitive market as one where the price tends to equal the average cost of production in the long run, and thus firms in competitive markets can earn only normal rates of return (economists call this zero economic profit). There are several different common approaches used to determine whether a market is competitive.

First, a naïve approach would look simply at the number of firms and assume that a large number of firms in a market demonstrates competition whereas only one firm (i.e., a monopoly) means no competition. Economists however are not clear on how many firms you need to have to achieve a competitive result. To be sure the greater the number of firms, the better the likelihood of securing a competitive price in the market, but there is no "magic number" of firms beyond which we can say with certainty that we will have a fully competitive result. In some cases, two firms may be enough to result in competitive price. Of course having only two firms invites an opportunity for collusion between the firms so we may instead get monopoly-like pricing. There is no well defined economic theory to help us predict which result we will get in the real world. It is also not easy to determine the definition of the market in terms of counting firms. Is it the number of natural gas firms only or is it the number of natural gas, electricity, and heating oil firms in the market that we should count? After all, electricity and heating oil are competing products with natural gas and could be considered a part of the "energy market" broadly defined. A less naïve but equally problematic approach for all the same reasons would be too look at market share concentration ratios for the top firms.

Second, one may attempt to measure directly the degree of competition by looking at the margins between price and average (or sometimes marginal) cost. If we have competition, then there should be no profit margin (in an economic sense) but if we have monopoly we would expect to find a profit margin. There are serious problems with this approach. One problem is that the no profit result applies in the "long run" and we simply do not know how long the economic concept of the long run is in terms of actual time; we do know however that the length of time necessary for long run adjustments to take place will vary considerably from industry to industry. Short run profits do happen in competitive markets all the time (as do short run losses) and their existence at a point in time is absolutely no evidence of collusion or a lack of competition. A second problem is that calculating profit margins requires detailed knowledge of the costs (and risks) facing the firm that no outsider can possibly know and indeed the firm itself may have only a vague idea about.

Third, we can try to judge the competitiveness of a marketplace by its "openness" to new entrants. If a market has only one firm, but faces potential competition from new entrants (i.e., it is "contestable"), it may still charge a competitive price in order to deter entrants. In many ways this is most satisfactory way to view the problem. If for example we had a contestable market in which only one firm or a small group of colluding firms were charging high monopoly-like prices, we would expect the new entrants to come in and compete away the high prices. The key thing from this point of view is to determine how open the market is to new entrants. If new entrants can enter a market easily, then my view is that we may rest easy that the market will approximate a competitive result in the long run.

In sum, the Commission should look at the number of competitors, the market share held by the competitors and pricing information, but the best way to judge whether a market is competitive, and equally important to keep it competitive is to examine whether there are barriers to entry, and if so to remove them.

Q9. What role should the Commission play in keeping a functioning market?

A9. The primary role of government in a market economy is to enforce certain basic rules of the game against fraud, price fixing, and the like and also to enforce contractual and regulatory obligations among various participants in the economy. In this situation, the Commission's primary role is to protect consumers from supply disruptions and collusion on the part of providers.

In the current regime, East Ohio Gas contracts to buy gas from wholesale providers using a procure system that it devised. A year or two later the Commission audits the purchases (management and performance audits) as well as reviews the records of expenditures and collections (financial audit). If the Commission finds irregularities it must fashion a remedy to repay or bill customers, though given the lapse of time restitution on an individual customer basis is not practical. The suggested new regime would have East Ohio Gas hold an open auction using a transparent process for obtaining bids from wholesalers. I would think the Commission would find its job of monitoring the marketplace and detecting price fixing easier in the more transparent environment of an open auction compared with the current audit process. Furthermore, if there is a problem with the auction it can be repaired before customers are billed.

Q10: Does this conclude your testimony?

A10: Yes, it does.

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing Direct Testimony of Dr. Robert Lawson was filed on behalf of the Ohio Gas Marketers Group and served upon the following persons by e-mail or via U.S. Mail this 15th day of November, 2005:

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5

FILE

The Public Utilities
Commission of Ohio

A report by the Staff of the
Public Utilities Commission of Ohio

DOMINION EAST OHIO STANDARD SERVICE OFFER POST-AUCTION REPORT

JULY 22, 2008

Case No. 07-1224-GA-EXM

electric
natural gas
telephone
water
railroad
motor carrier

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DOMINION STANDARD SERVICE AUCTION RESULTS

Background

On June 18, 2008 the Commission approved a joint stipulation which authorized The East Ohio Gas Company d/b/a Dominion East Ohio (Dominion) to conduct an auction for pricing of its wholesale natural gas supply for the period September 1, 2008 through March 31, 2009. On July 22, 2008 Dominion conducted an auction consistent with that Opinion and Order. The auction participants bid a "Retail Price Adjustment" in the form of an adder to the monthly NYMEX settlement price for natural gas futures. The Retail Price Adjustment is a fixed dollar amount over the seven month term and reflects the bidders' estimate of their incremental cost to deliver the required amount of gas from the Henry Hub (which is priced at the NYMEX), to Dominion's city gate. If the result of the auction is approved by the Commission, the sum of the monthly NYMEX settlement price and the Retail Price Adjustment will be the Standard Service Offer (SSO) price for sales customers not otherwise participating in Dominion's choice program. Supplies procured through the auction will serve Dominion's aggregate sales requirements for mercantile and non-mercantile sales customers served under the General Sales Service and Large Volume General Sales rate schedules including Percentage of Income Payment Plan (PIPP) customers.

On August 30, 2006, the Commission issued an Entry authorizing Dominion to replace its then current Gas Cost Recovery (GCR) mechanism with an SSO rate of NYMEX plus a $1.44 Retail Price Adjustment. That approval was based on the recommendation contained in a Staff Report filed on August 29, 2006 which concluded that $2.504 was the upper bound of what would be considered a reasonable benchmark for the auction result. This benchmark was based on Staff's analysis of the historic relationship between the NYMEX price and Dominion's GCR. The Staff believes that historical analysis still has some validity, but any auction result needs to also consider current market conditions compared to conditions that existed at the time of the first auction. An increase in basis costs at major supply points, an increase in Dominion's fuel retention rate and a significantly smaller spread between the cost of gas in storage compared to current NYMEX futures prices, all combined to put upward pressure on the auction results as compared to the previous auction. Regardless of the final price, the fact that thirteen suppliers participated, (one more than with the last auction) argues for a conclusion that the resulting auction price is an accurate reflection of the natural gas market at the time of the auction. In evaluating the auction result Staff believes the Commission should also consider more subjective factors such as the benefit to the Choice program that results from continuation of the market based SSO regime rather than a return to the GCR with its lagged adjustments.

Auction Results

World Energy Solutions (World Energy) was retained by Dominion to be the auction manager. World Energy is the successor company to Energy Gateway, which conducted

Dominion's initial SSO auction. The auction was conducted on July 22, 2008 from the World Energy offices in Dublin, Ohio with bidders participating over the internet. For purposes of the auction Dominion's aggregate load was separated into 12 tranches. Thirteen bidders were certified to participate in the auction with each participant bidding on a maximum of 4 tranches. The auction was conducted as a descending clock auction. Under this type of auction the participants bid on the number of tranches they are willing to supply at an announced price (the Retail Price Adjustment). If there are more tranches bid than are available, a new round is conducted at a lower announced price. The auction continues until exactly 12 tranches are bid and the announced price at that round becomes the Retail Price Adjustment for the SSO. The initial bid price was set at $3.50 by agreement between Dominion and Staff. The round-by-round decrement to that initial price was also determined in advance based on the ratio of tranches bid to tranches available according to the following formula:

Supply Ratio	Decrement
Greater than 2.5	20 cents
1.75 to 2.5	10 cents
Less than 1.75	5 cents

Dominion also reserved the right to adjust the decrements if circumstances dictate after consultation with Staff.

The auction concluded after 12 rounds with a final Retail Price Adjustment of $2.33. Five bidders were awarded tranches. Because there was an over-subscription of tranches bid in round 8 at $2.35 followed by an under-subscription in round 9 at $2.30, the auction price was reset at $2.34 and the auction continued at 1 cent decrements. Once again, in round 11 there was an over-subscription followed by an under-subscription in round 12. According to the auction rules, this ended the auction. Tranches were allocated by reverting to the number of trances bid in the previous over-subscribed round. 14 tranches were bid in that round by five bidders. The total available load is adjusted so that each tranche is now 1/14th of the available load rather than 1/12th. Each winning bidder is then awarded the number of newly calculated tranches bid in that over-subscribed round. A round-by-round bidding summary is attached to this report with the bidders not identified. Based on Staff's observations the auction was fair and devoid of any indications of collusion or other anomalies. The resulting Retail Price Adjustment of $2.33 is within the $2.504 that Staff has determined is a reasonable benchmark by which to evaluate the auction result. Based on the criteria discussed above, Staff recommends the Commission approve the $2.33 as the SSO Retail Price Adjustment for the period September 1, 2008 through March 31, 2009. Although Staff is recommending approval for the seven month period we recognize the Commission will retain authority to terminate the SSO and direct Dominion to return to GCR service at any time should circumstances warrant.

Confidentiality

If the auction results are approved by the Commission, the winning bidders will need to secure a certain amount of interstate pipeline capacity to meet their supply obligations. Bidders expressed concerns that revealing their identities may have a negative impact on their negotiating position with the pipelines. Staff recommends the Commission grant confidentiality of the bidder's identities for a period of 60 days after Commission approval of the auction results.

DOMINION AUCTION SUMMARY

	Round 1	Round 2	Round 3	Round 4	Round 5	Round 6	Round 7	Round 8	Round 9	Round 10	Round 11	Round 12
Price	$3.50	$3.30	$3.10	$2.90	$2.70	$2.50	$2.40	$2.35	$2.30	$2.34	$2.33	$2.32
A	3	3	3	3	1	1	0	0	0	0	0	0
B	3	3	0	0	0	0	0	0	0	0	0	0
C	4	4	4	4	3	2	1	1	1	1	1	1
D	4	4	4	4	4	4	4	4	4	4	4	4
E	4	4	4	4	4	4	4	4	2	4	4	1
F	4	4	4	4	4	4	2	0	0	0	0	0
G	4	4	4	4	4	4	4	4	2	4	4	4
H	4	4	4	4	4	0	0	0	0	0	0	0
I	4	4	4	4	4	2	0	0	0	0	0	0
J	4	4	4	4	4	4	2	0	0	0	0	0
K	4	4	4	0	0	0	0	0	0	0	0	0
L	1	1	1	1	1	1	1	1	1	1	1	1
N	3	0	0	0	0	0	0	0	0	0	0	0
Total	46	43	40	36	33	26	18	14	10	14	14	11
Ratio	3.83	3.58	3.33	3.00	2.75	2.17	1.50	1.17	0.83	1.17	1.17	0.92

10

FILE

The Public Utilities
Commission of Ohio

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PUCO

A report by the Staff of the
Public Utilities Commission of Ohio

POST-AUCTION REPORT ON DOMINION EAST OHIO PHASE 1 SUPPLY AUCTION

August 29, 2006

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natural gas
telephone
water
railroad
motor carrier

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(800) 686-PUCO

Case No. 05-474-GA-ATA

Background

On August 29, 2006 Dominion East Ohio (Dominion) conducted an auction for pricing of its wholesale natural gas supply for the period October 2006 through August 2008 consistent with the Commission's May 26, 2006 Opinion and Order. The auction participants bid a "Retail Price Adjustment" in the form of an adder to the monthly NYMEX settlement price for natural gas futures. The Retail Price Adjustment is a fixed dollar amount over the twenty-three month term of Phase 1 and reflects the bidders' estimate of their incremental cost to deliver the required amount of gas from the Henry Hub (which is priced at the NYMEX), to Dominion's city gate. These incremental costs will include pipeline transportation costs, heat rate conversion, lost and unaccounted for gas, administrative and general costs as well as the bidder's profit. If the result of the auction is approved by the Commission, the sum of the monthly NYMEX settlement price and the Retail Price Adjustment will be the Standard Service Offer (SSO) price for customers not participating in Dominion's choice program. This SSO price would replace the GCR mechanism during the Phase 1 period.

The PUCO Staff attempted to characterize an auction outcome that would be considered reasonable and deserving of Commission approval. In order to determine an appropriate Retail Price Adjustment, available data were analyzed to identify how Dominion's GCR rate has differed from the NYMEX historically. This will serve as a benchmark for evaluating the auction results since an acceptable Retail Price Adjustment should not differ substantially from this historical "delta" assuming expected market conditions at the time of the auction are not outside the range of historical conditions.

This report also contains a review of the auction procedures performed by CRA International (CRA), which was retained to provide consultant support to the Staff and Commission in monitoring and evaluating the auction.

<u>BENCHMARK PRICE ANALYSIS</u>

Staff Analysis

The Staff's analysis focused on comparing Dominion's Expected Gas Cost (EGC) with the NYMEX monthly settlement price for the period February 2000 through June 2006. The data were adjusted to account for the inconsistency between a <u>monthly</u> NYMEX price and <u>quarterly</u> EGCs prior to November 2004 (at which time Dominion began updating the EGC monthly). The second and third months of each quarter were deleted to eliminate the two months in which the EGC was not adjusted. A one month lag of the NYMEX price was utilized to reflect the 30 day lag required of GCR filings prior to November 2004. The differentials (or "deltas") between the adjusted EGC and NYMEX data were then calculated using the lagged NYMEX price prior to November 2004 and the non-lagged NYMEX price from that point through June 2006. Rather than relying on a simple average of the differentials over the entire time period, averages were calculated for several different time periods for purposes of examining how they may have changed over time. Although these averages do show growth over time, presumably due higher and more volatile commodity prices, they are fairly consistent.

Also included in Staff's analysis was a factor to reflect the GCR adjustments over time. Although the EGC is intended to be an estimate of the current market price, the GCR adjustments nonetheless are actual costs incurred that should be accounted for in the analysis. There is no precise methodology for accounting for these adjustments since there is a significant time lag between the time the costs are incurred and the time period over which they are recovered. In this analysis, the adjustments were accounted for by taking an average of those adjustments over the same time periods as the NYMEX / EGC differentials discussed above were calculated. The sum of the EGC deltas and average GCR adjustments is shown in Table 1 as the "NYMEX Delta". (All prices are in $/Mcf.)

TABLE 1

HISTORICAL COMPARISON OF NYMEX VS. DOMINION EGC

	NYMEX SETTLE	DEO EGC	EGC DELTA	AVERAGE GCR ADJUSTMENT	NYMEX DELTA
Average 2000 - 2006:	$6.3099	$8.1443	$1.8375	$0.2780	$2.1155
Average 2001 - 2006	$6.6241	$8.4819	$1.8613	$0.2987	$2.1599
Average 2002 - 2006	$6.8617	$8.7275	$1.8697	$0.2060	$2.0757
Average 2003 - 2006	$7.4311	$9.2685	$1.8418	$0.3921	$2.2339
Average 2004 - 2006	$7.9706	$9.8538	$1.8886	$0.3641	$2.2527
Average 2005 - 2006	$8.5267	$10.3474	$1.9347	$0.4035	$2.3382
Overall Weighted Average:					**$2.1960**

A final calculation was performed by calculating an overall average of all the individual averages for the various time periods. This overall average will include all the time periods but will be more heavily weighted to the most recent time periods. The result is an overall weighted average adder of $2.1960.

As an alternative approach, the Staff conducted a more detailed review limited to the post November 2004 period. This was done to account for the aforementioned inconsistency between a monthly NYMEX price and quarterly EGCs prior to November 2004. In this approach, Staff evaluated the various measures of gas costs available GCR, EGC and Unit Book Cost (i.e. the total actual gas costs divided by sales) in two ways: (1) using the simple average over the 11/04-7/06 period and (2) using a weighted average over that period where the rate is weighted by usage (Weighted Average Cost Of Gas or "WACOG"). The latter would seem to yield a better comparison because it places more emphasis on higher usage months, just as bidders would do in structuring their offers.

Staff further refined the data by creating an additional subset of the data that removed the three lowest and three highest differences between the EGC/GCR rates and the NYMEX. This was done to correct the data for perceived outliers due the supply impacts of Hurricanes Katrina and Rita, as well as for certain months where the prompt month price fell significantly after Dominion had filed its rate. By discarding these outliers, the remaining figures represent more typical variations from the NYMEX. Differentials were calculated using the weighted and non-weighted averages for both the full time period and the modified period which excludes the data points discussed above corresponding to the months 9/05 – 11/05, 2/06 – 3/06, and 7/06. Table 2 summarizes the results of this analysis.

TABLE 2

NYMEX VS. DOMINION RATES USING SALES WEIGHTED AVERAGES

	Average Rates				NYMEX Differential		
	NYMEX Settle	EGC	GCR	Book Cost	EGC	GCR	Book Cost
Non-WACOG Comparisons							
Average For Entire Span	$8.199	$10.141	$10.547	$11.924	$1.942	$2.348	$3.725
Average Less Following: 9/05-11/05, 2/06-3/06, 7/06	$7.479	$9.581	$9.984	$9.227	$2.102	$2.504	$1.748
WACOG Comparisons							
Average For Entire Span	$8.102	$10.141	$10.555	$10.299	$2.039	$2.452	$2.196
Average Less Following: 9/05-11/05, 2/06-3/06, 7/06	$7.720	$9.728	$10.098	$9.157	$2.008	$2.378	$1.437

In determining which NYMEX rate differential, (i.e. EGC, GCR or Unit Book Cost), with which to evaluate the auction outcome, Staff concludes that the comparison with the GCR provides the most appropriate benchmark. The wide variability in the Unit Book Cost information appears to make it the least useful benchmark. This variability is most likely due to distortion caused by extremely seasonal usage patterns, the billing cycle effect and the LIFO storage accounting reflected in the book cost of gas. The EGC comparison will be understated because it does not include the GCR adjustment component of gas costs. As discussed above, actual gas costs inevitably will vary from the EGC and those true-ups need to be considered in some fashion. Since the GCR comparison incorporates those true-ups, Staff concludes that the calculated differential between NYMEX and the GCR provides the most reasonable benchmark. Staff further believes that the WACOG data should be given more weight in the evaluation as should the differentials associated with the subset of the data series that does not include the six outlier months discussed above.

Recommendation

One conclusion to be drawn from the Staff's analyses is that the differential between the monthly NYMEX and Dominion's retail rate has been growing over time. Table 1 shows a generally increasing trend in the average differentials as the most recent time periods are given increasingly greater weight. This is supported by the data in Table 2 which shows even higher differentials when only the most recent time periods are used. The results in Table 1 thus should be considered somewhat understated by virtue of using a longer data history which included years that reflected lower prices and much less volatility in the NYMEX than seen in recent years. The $2.196 overall weighted average thus should be considered at the low end of what would be considered a reasonable benchmark. The results in Table 2, being more reflective of recent experience, should be given greater weight in evaluating the auction results. The calculated GCR differentials in Table 2 are fairly consistent, ranging from a low of $2.348 to a high of $2.504. The $2.504 differential should thus be considered at the high end of what would be considered a reasonable benchmark.

These results are intended to provide a historical context to assist in evaluating the auction results. Assuming the auction otherwise is considered to be successful (e.g. there was sufficient bidding interest and competition, the auction provided a competitive market outcome, *etc.*), the benchmark range identified above should be considered a guideline to assist the Commission in evaluating the auction results, rather than the single determinant in the decision to accept or reject the auction results.

CRA REVIEW OF AUCTION PROCESS

CRA assisted the Commission and Staff by monitoring and reviewing the auction procedures and results. Prior to the auction, CRA provided advice on the starting price and price decrements for the auction. CRA also attended the bidder information session in Columbus on August 17. During the auction, CRA monitored the bidding process.

CRA believes the auction was conducted fairly and reasonably, and that there was sufficient bidding interest and competition to suggest the auction results reflect a market-determined price. Attachment A provides the details of CRA's assessment

STAFF RECOMMENDATIONS

Auction Results

The August 29, 2006 auction resulted in a final Retail Price Adjustment of $1.44 per Mcf. This outcome is well below the range of benchmarks calculated by Staff. Based on this result and CRA's determination that the auction procedures were fair and devoid of any signs of collusion or other anomalies, Staff is recommending the Commission approve the auction results. If so approved, the SSO price for the Phase 1 period of October 2006, through September 1, 2008 will be the monthly NYMEX settlement price plus a Retail Price Adjustment of $1.44 per Mcf. In making this recommendation Staff recognizes that, in its May 26, 2006 Opinion and Order, the Commission reserved all authority to exercise oversight during Phase 1 and specifically reserved the right to terminate Phase 1 and return to the GCR pricing methodology at any time if circumstances warrant.

Confidentiality

Prior to the August 29, 2006 auction, meetings were held with the auction participants, Dominion, the Staff and OCC to discuss the details of the auction. During these sessions bidders expressed concern about the winning bidders being prematurely identified. Once the auction results are approved by the Commission, the winning bidders will need to secure a certain amount of interstate pipeline capacity to meet their supply obligations. Bidders are concerned that revealing their identities may have a negative impact on their negotiating position with the pipelines. The consensus of the bidders was that a period of 60 days after the auction for the bidder's names to remain confidential would be sufficient to conclude agreements with the pipelines. Staff recommends the Commission grant confidentiality of the bidder's identities for a period of 60 days after Commission approval of the auction or until agreements with the pipelines are concluded, whichever comes first.

ATTACHMENT A

Prepared For:

The Public Utilities Commission of Ohio

180 East Broad Street

Columbus, OH 43215-3793

Post-Auction Checklist for the Dominion East Ohio Natural Gas Wholesale Supply Auction

Prepared By:

CRA International

200 Clarendon Street

Boston Massachusetts 02116

Date: August 29, 2006

ATTACHMENT A

POST-AUCTION CHECKLIST FOR THE DOMINION EAST OHIO NATURAL GAS WHOLESALE SUPPLY AUCTION

Prepared by: CRA International.

CRA International (CRA) was retained by the Public Utilities Commission of Ohio (the PUCO or the Commission) to assist the Commission and PUCO Staff by reviewing the Dominion East Ohio natural gas wholesale supply auction that culminated in bidding on August 29, 2006.

This report is CRA's post-auction checklist of the auction.

The auction began with the opening of round 1 at 9:00 AM on Tuesday, August 29, 2006, and concluded with the close or round 15 at 4:30 PM on the same day.

Table 1 below shows pertinent indicators and measures for the auction. Table 2 below provides in checklist format our assessment of the auction and how it was conducted.

Table 1. Summary of the Dominion East Ohio Natural Gas Wholesale Supply Auction

Number of Bidders at start of round 1	12
Number of tranches to procure	12 tranches @ approximately 5 BCF/yr for each tranche
Eligibility ratio at start of round 1	43/12 = 3.58
Maximum # tranches a bidder can bid	4
Starting price (going price for round 1)	3.50 $/mcf
# Tranches bid in round 1	40
Eligibility ratio at start of round 2	40/12 = 3.33
# Tranches bid in round preceding round with zero excess supply or undersupply	13 tranches (round 13), 8 tranches (round 14)
# Tranches bid in final round of auction	12 tranches (round 15)
Final closing auction price	1.44 $/mcf
# Tranches procured	12
# Winning Bidders	6
Maximum # tranches sold by any one bidder	4

ATTACHMENT A

Table 2. Overview of the Review of the Dominion East Ohio Natural Gas Wholesale Supply Auction

	Question	Comments
1	From what CRA could observe, were there any procedural problems or errors with the auction, including the electronic bidding process, the back-up bidding process, and communications between bidders and the Auction Manager (Energy Gateway)?	We observed no such problems or errors.
2	From what CRA could observe, were there any hardware or software problems or errors, either with the auction system or with its associated communications systems?	No.
3	Were there any unanticipated delays during the auction?	Yes. During bidding in round 9, bidders had trouble accessing the auction servers. The round was restarted after the auction server was rebooted.
4	Did unanticipated delays appear to adversely affect bidding in the auction? What adverse effects did CRA directly observe and how did they relate to the unanticipated delay?	No.
5	Were appropriate data back-up procedures planned and carried out?	Appropriate data back-up procedures were planned. The Auction Manager informs us these procedures were indeed carried out.
6	Were any security breaches observed with the auction process?	We observed no such breaches, nor were we informed of any such breaches.
7	From what CRA could observe, were protocols followed for communications among Dominion East Ohio, its Auction Manager, PUCO Staff, the Commission (if necessary), and CRA during the auction?	Yes.
8	From what CRA could observe, were the protocols followed for decisions regarding changes in auction parameters (e.g., price decrements)?	Yes.
9	Were the calculations (e.g., for bid decrements or bidder eligibility) produced by the auction software double-checked or reproduced off-line by the Auction Manager?	The auction software did not make these calculations. The calculations were done manually offline and double-checked.

ATTACHMENT A

	Question	Comments
10	Was there evidence of confusion or misunderstanding on the part of bidders that delayed or impaired the auction?	We saw no such evidence.
11	From what CRA could observe, were the communications between the Auction Manager and bidders timely and effective?	Yes.
12	Was there evidence that bidders felt unduly rushed during the process?	No. There were some round extension requests, but no bidder reported being rushed or appeared to be rushed.
13	Were there any complaints from bidders about the process that CRA believed were legitimate?	We saw no such evidence.
14	Was there any evidence of collusion or improper coordination among bidders?	We saw no such evidence.
15	Was there any evidence of a breakdown in competition in the auction?	We saw no such evidence. Prices declined in an orderly way from the beginning to the end of the auction.
16	Does the auction appear to have generated a result that is consistent with competitive bidding and market-determined prices?	Yes.
17	Were there factors exogenous to the auction (e.g., changes in market environment) that materially affected the auction in unanticipated ways?	We observed no such effects.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 5

For Mr. Collins, with respect to your testimony at p. 6, is it your testimony that there are no incremental costs for a utility to bill and collect for itself and multiple competitive suppliers over the costs of the utility billing and collecting for itself alone?

Response:

Objection. The question posed is unclear and ambiguous. No testimony is offered at page 6 which addresses either directly or indirectly the issue of incremental billing costs. With that caveat, there may be incremental costs attributable to system development to accommodate the exchange of electronic data. Once constructed, it is unclear as to whether continuing incremental costs would be incurred.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 6

For Mr. Collins, please define the term "human needs customers" as you use it in your testimony, for example at p. 7.

Response:

I intend the term "human needs customers" to mean those customers whose health and safety are fundamentally reliant on delivery of natural gas for heating purposes. Examples of human needs customers are residential customers or commercial locations which possess fundamental similarity to residential locations such as nursing homes, assisted living centers, hospitals, and hotels.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 7

For Mr. Collins, with respect to your testimony at pp. 6-7, is it your testimony that the 85% of customers who have access to gas supplier choice but have not chosen competitive gas supply are human needs customers? Is it your testimony that none or only a small portion of the 15% of customers with supply choice who have used competitive suppliers are human needs customers? If not, please clarify your statement at p. 7, lines 2 to 3, with the portion of shoppers and non-shoppers that are human needs customers.

Response:

Given the definition of "human needs customers" provided above and the characterization of the migration in the testimony referred to in this question as "residential natural gas customers", the migration data should be considered to apply to human needs customers.

PSC Case No. 2010-00146
AARP DR No. 008
Respondent: Greg Collins
Matthew Malone, Esq. as to legal objection

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 8

For Mr. Collins, with respect to your testimony at p. 10, starting at line 11, please identify each utility with a choice program in which the utility renders a consolidated bill for both utility distribution services and supplier commodity charges, state whether the utility purchases the suppliers' receivables, and state the terms and conditions of recourse by the utility to the supplier for shortfalls in recovery of such receivables.

Response:

Objection. This request is overly broad and would require Mr. Collins to engage in research that AARP could as easily engage in using its own resources and as such, Mr. Collins is not required to conduct such research.

Without waiving the objection, to the best of Mr. Collins knowledge, the following programs have, or recently approved, consolidated billing and purchase of receivables programs (as the terms and conditions of recourse vary from utility to utility and state to state, Mr. Collins does not have a matrix or study that would provide a response to the last part of the request, but Mr. Collins would point to the individual programs and utilities and direct AARP to request of the utility copies of the applicable tariff provisions, as well as copies of the generic billing agreements).

(UCB means" Utility Consolidated Billing", POR, "Purchase of Receivables" affirmative response means the utility has it or has it approved and is working on implementation (with appropriate note thereof)).

UTILITY	UCB(yes or no)	POR (yes or no)
Ohio:		
Dominion East Ohio	yes	yes
Vectren Energy Delivery	yes	yes
Duke Energy-Ohio	yes	yes
Columbia Gas of Ohio	yes	yes
Michigan:		
Michigan Consolidated (MichCon)	yes	yes
Consumers Energy	yes	yes

Indiana:		
Northern Indiana PSC	yes	yes
Pennsylvania:		
Columbia Gas of PA	yes	yes
Dominion/Peoples	yes	no
National Fuel PA	yes	yes (summer 2010)
PPL (electric)	yes	yes
Equitable	yes	no
New York:		
Central Hudson	yes	yes
National Fuel NY	yes	yes
NIMO (National Grid)	yes	yes
Consolidated Edison (ConEd)	yes	yes
Orange & Rockland	yes	yes
Keyspan	yes	yes
Illinois:		
Ameren (electric)	yes	yes
Commonwealth Edison (electric)	yes	in process
Nicor Gas	yes	no
Peoples/Northshore	yes	no
Kentucky:		
Columbia Gas of KY	yes	yes
Maryland:		
Baltimore Gas & Electric	yes (developing 2010)	yes (developing 2010)
Washington Gas & Electric	yes (developing 2010-11)	yes (developing 2010-11)
Columbia Gas of MD	pending Commission approval POR UCB	

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 9

For Mr. Collins, with respect to your testimony at p. 11, please provide the costs or the range of costs (stated in nominal terms and by per-therm or per-customer cost) for suppliers to build and operate a duplicative receivables management capability. If a range is provided, please explain the factors that determine where on the range given supplier would fall.

Response:

Objection. The question calls for conjecture and speculation. Likewise, costs associated with the construction and implementation of a receivables management capability are different for any supplier. Furthermore, the largest portion of the potential costs associated with an accounts receivable system do not correlate to a "per-customer" cost. Without waiving this objection or caveats, Witness Collins submits that basic start-up costs for establishing a receivables management system in any given market can exceed $500,000 and, depending on system complexity, can exceed $1,000,000.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 10

For Mr. Collins, with respect to your testimony at p. 12, please explain how regulatory risk associated with utility costs recovery can be minimized or eliminated to varying degrees depending on customer choice participation levels.

Response:

Capital costs associated with the utility putting gas into storage are diminished as customers migrate to competitive suppliers who as a result of the supply obligation become responsible for purchasing and storing that natural gas. Thus, the utility is relieved of that capital requirement, expenditure, and ultimately the risk associated with such investment and expenditure. Further, a utility is subject to hindsight review regarding its procurement decisions, so the greater the volume of natural gas for which it is responsible, the greater the cost and thus the risk posed by potential disallowance should the procurement decisions be determined unreasonable or imprudent. Also, as customers migrate to competitive supply service several utilities have seen the wisdom in reducing or completely eliminating all of the risk associated with hindsight review of commodity expenditures, and have requested and been granted exemptions from such hindsight reviews in exchange for replacing traditional GCR commodity procurement and pricing with competitively procured commodity. Examples of this exist on the Vectren Energy Delivery of Ohio system, Dominion East Ohio system, Columbia Gas of Ohio system, and in Georgia, Atlanta Gas and Light. All have eliminated the regulatory risk associated with utility cost recovery mechanisms, and are no longer subject to Management and Performance Audits and commodity hindsight audits.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 11

For Mr. Collins, with respect to your testimony at p. 13, please identify each and every utility and jurisdiction that has in place reasonable standards with respect to customer interaction, enrollment and contracting, and identify the standards in place for each utility or jurisdiction.

Response:

While interested parties may differ in their assessment of reasonableness, the standards promulgated by the Public Utilities Commission of Ohio pursuant to Ohio Administrative Code are exemplary in that they have proven to be effective in promoting consumer protection without unduly impeding the continued development of the competitive market in the State. Those rules are contained in the Ohio Administrative Code at Section 4901:1-29 Minimum Standards for Competitive Retail Natural Gas Service.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 12

To the extent that the testimony filed on behalf of Intestate Gas Supply, Inc., Southstar Energy Services, LLC and Vectren Source includes calculations of savings that any of your businesses have provided to customers over the costs they would otherwise have paid under regulated utility gas services, please provide all workpapers of each such calculation or estimate, in executable spreadsheet form, with identification of all relevant source material.

Response:

No testimony thus far has included any calculations of savings. However, Interstate Gas Supply, Inc., Southstar Energy and Vectren Source reserve the right to address this issue and will supplement this response to the extent they offer testimony of same in rebuttal.

INTERSTATE GAS SUPPLY, INC., SOUTHSTAR ENERGY SERVICES, LLC'S AND VECTREN SOURCE'S RESPONSE TO DATA REQUEST OF AARP

Request for Information 13

To the extent that the testimony filed on behalf of Intestate Gas Supply, Inc., Southstar Energy Services, LLC and Vectren Source asserts that terms and conditions for retail gas choice in Kentucky are more onerous and fees and charges are higher than in other jurisdictions, please provide any analysis or other evidence that demonstrates that the Kentucky terms, conditions, fees or charges are: (a) not cost-based; (b) unjust; or (c) unreasonable.

Response:

No such assertions were made.

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Request for Information 14

Is it the position of Intestate Gas Supply, Inc., Southstar Energy Services, LLC and/or Vectren Source that the supervision by the Kentucky Public Service Commission of the competitiveness of the retail supply market in Kentucky is: (a) within the jurisdiction of the Commission, and (b) provides a state action protection against application of anti-trust laws to that market? Please provide your reasoning and relevant citations to support your positions on these questions.

Response:

Objection. This questions calls for a legal conclusion outside the scope of Witness' Collins' testimony.