

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 8, 2005

APPLICATION OF

COLUMBIA GAS OF VIRGINIA, INC.

CASE NO. PUE-2005-00087

For Authorization to Implement a
Gas Cost Hedging Program

NOV 17 2005

DOCUMENT CONTROL

ORDER PRESCRIBING NOTICE AND INVITING
COMMENTS AND REQUESTS FOR HEARING

On October 17, 2005, Columbia Gas of Virginia, Inc. ("CGV" or the "Company"), filed an application with the State Corporation Commission ("Commission") to implement a Gas Cost Hedging Plan program (the "Hedging Plan") to allow CGV to engage in financial hedging activities as part of its gas purchasing strategy effective January 1, 2006. The Company requests authority to pass through all of the associated transaction costs of the Hedging Plan as well as any of the financial gains and losses that would result from the purchase and sale of future contracts as part of such financial hedging through the Company's Purchased Gas Adjustment/Actual Cost Adjustment ("PGA/ACA") mechanism. The Hedging Plan is intended to provide greater gas cost stability in the Company's natural gas procurement strategy, beginning with CGV's 2006-2007 winter season and thereafter.

The Company reports three primary techniques are used in the gas industry for fixing or stabilizing the cost of commodity gas supply in advance, including: advance purchase and storage of gas supplies; contracting with gas suppliers for future purchases at pre-established prices; and hedging future costs of physical purchases utilizing financial derivatives, specifically the standard Natural Gas Futures Contract traded on the New York Mercantile Exchange ("NYMEX"). CGV presently engages in the advance purchase and storage of gas supplies and

seeks authority to combine this with use of financial futures contractual hedges to cover a portion of CGV's purchases related to future demand. CGV believes that fluctuations of natural gas commodity rates, often resulting in significant price spikes, can be significantly reduced through the combination of the use of its present storage gas and the use of NYMEX gas futures contracts to cover a portion of CGV's purchases related to future demand. CGV will purchase the futures contracts on a ratable basis during the twenty-four consecutive months (the "Window Period") ending with the August just prior to the Winter Season being hedged.¹

The Company proposes that its Hedging Plan, when approved and combined with the Company's existing hedging through the use of gas storage, would allow over two-thirds of the Company's normal winter requirements to be hedged. The Company states that approximately 34% of CGV's normal firm demand in the winter months (November through March or "Winter Season") will be hedged physically through the injection and withdrawal of underground storage supply, and the remaining 66% of normal winter requirements will be satisfied via winter purchases with 50% of such purchases being hedged through the use of futures contracts pursuant to the Company's proposed Hedging Plan.

CGV proposes pass-through recovery of all costs associated with the transactions involved in the Hedging Plan by amending its PGA/ACA tariff to include costs associated with gas-price hedging in the definition of the cost of "purchased gas" (shown in Attachment 1 of the Application). The pass-through of the Hedging Plan costs will include: all costs associated with the purchase and sale of futures contracts; the financial gains and losses occurring when the

¹ CGV explains that, for example, on the last trading day in September 2006, CGV would begin purchasing futures contracts for November 2008 through March 2009, and would continue to purchase an equal number of contracts each month in the same manner through August 2008. (Application at 11 and Attachment 2). However, to implement the Hedging Plan so that November 2006 becomes the first month hedged will require a fewer number of months in the Window Period for contract purchases while maintaining August as the last month of the Window Period.

futures positions are closed out; other transaction costs including, but not limited to, Natural Gas Futures Association fees, confirmation fees, and all broker and exchange fees associated with the futures transactions. CGV represents that the typical transaction cost is \$.003 per MMBtu, inclusive of the above items.

NOW, UPON CONSIDERATION of the Company's application, the Commission is of the opinion and finds that notice of the captioned application should be given, that interested persons should have the opportunity to comment and to request a hearing on the application, and that the Commission's Staff should investigate the reasonableness of the Company's application and should file a report thereon.

Accordingly, IT IS ORDERED THAT:

(1) This matter is docketed and assigned Case No. PUE-2005-00087.

(2) A copy of the application and this Order shall be made available to interested persons who may obtain copies, at no charge, by making a request in writing to counsel for the Company, Edward L. Flippen, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219. Copies are also available for public inspection at the Commission's Document Control Center, Tyler Building, First Floor, 1300 East Main Street, Richmond, Virginia 23219, Monday through Friday, 8:15 a.m. to 5:00 p.m., or may be downloaded from the Commission's website: <http://www.scc.virginia.gov/caseinfo.htm>.

(3) On or before November 30, 2005, the Company shall complete publication of the following notice to be published once as display advertising (not classified) in newspapers of general circulation within CGV's service territory:

NOTICE TO THE PUBLIC OF AN APPLICATION BY
COLUMBIA GAS OF VIRGINIA, INC. FOR AUTHORIZATION
TO IMPLEMENT A GAS COST HEDGING PROGRAM
CASE NO. PUE-2005-00087

Columbia Gas of Virginia, Inc. ("CGV" or the "Company"), has filed an application with the State Corporation Commission ("Commission") for authorization to implement a gas cost hedging program (the "Hedging Plan") and to allow the Company to engage in financial hedging activities as part of its gas purchasing strategy effective January 1, 2006, for the 2006-2007 and 2007-2008 heating seasons and thereafter, and to pass-through the associated transaction costs as well as any of the financial gains and losses that result from the purchase and sale of futures contracts of such financial hedging through the Company's Purchased Gas Adjustment/Actual Cost Adjustment mechanism, as well as the associated tariff charges.

A copy of CGV's application and the Commission's Order in this proceeding are available, at no charge, by making a request in writing to counsel for the Company, Edward L. Flippen, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219. Copies are also available for public inspection at the Commission's Document Control Center, Tyler Building, First Floor, 1300 East Main Street, Richmond, Virginia 23219, Monday and Friday, 8:15 a.m. to 5:00 p.m., or may be downloaded from the Commission's website:
<http://www.scc.virginia.gov/caseinfo.htm>.

On or before December 30, 2005, any interested persons may submit written comments or requests for a hearing on the application by filing an original and 15 copies of such comments or requests with Joel H. Peck, Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Any request for hearing shall state with specificity why the issues raised in the request for hearing cannot be adequately addressed in written comments. If no sufficient request for hearing is received, the Commission may consider the application based upon the papers filed without convening a hearing. Persons filing a request for hearing and expecting to participate as a respondent in any hearing that may be scheduled also shall file a notice of participation with the Clerk of the Commission on or before December 30, 2005. Interested persons

should refer to the Commission's order for more information on participation as a respondent.

Interested persons shall refer in their comments, requests for hearing, and notices of participation to Case No. PUE-2005-00087 and shall serve a copy upon counsel for CGV at the address set forth above.

COLUMBIA GAS OF VIRGINIA, INC.

(4) On or before November 30, 2005, CGV shall serve a copy of this Order on the chairman of the board of supervisors of each county and the mayor or manager of every city and town (or equivalent officials in the counties, cities, and town having alternate forms of government) in which the Company offers service. Service shall be made by first-class mail or personal delivery to the customary place of business or to the residence of the person served.

(5) On or before December 20, 2005, CGV shall file with the Clerk of the Commission proof of notice and service as required herein.

(6) On or before December 30, 2005, any interested persons may submit written comments or requests for a hearing on the application by filing an original and fifteen (15) copies of such comments or requests with Joel H. Peck, Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Any request for hearing shall state with specificity why the issues raised in the request for hearing cannot be adequately addressed in written comments. If no sufficient request for hearing is received, the Commission may consider the application based upon the papers filed herein without convening a hearing at which oral testimony is received. Interested persons shall refer in their comments or requests for hearing to Case No. PUE-2005-00087 and shall serve a copy upon counsel for CGV at the address set forth in Ordering Paragraph (2) above.

(7) On or before December 30, 2005, persons filing a request for hearing and expecting to participate as a respondent in any hearing that may be scheduled in this matter shall file an original and fifteen (15) copies of a notice of participation as required by 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-10 et seq., as well as an original and fifteen copies of any prepared testimony and exhibits the respondent intends to present. All notices of participation and prepared testimony and exhibits shall be filed with the Clerk of the Commission at the address set forth in Ordering Paragraph (6) above. Copies of any notice of participation or prepared testimony and exhibits shall refer to Case No. PUE-2005-00087 and shall simultaneously be served on counsel for the Company at the address set forth above in Ordering Paragraph (2) above.

(8) On or before January 17, 2006, the Staff shall investigate the reasonableness of CGV's application and present their findings and recommendations in a report, or testimony if appropriate, filed with the Clerk of the Commission and send a copy to counsel for CGV and each respondent.

(9) On or before January 25, 2006, CGV shall file with the Clerk of the Commission at the address set forth above in Ordering Paragraph (6) above an original and fifteen (15) copies of any response, or testimony if appropriate, the Company expects to introduce in rebuttal. The Company also shall serve a copy of such response or rebuttal testimony upon the Staff and each respondent.

(10) CGV and each respondent shall respond to all interrogatories and other data requests within ten (10) calendar days after receipt of the same. Any objections must be filed within five (5) days after receipt of the interrogatory or data request by the party to whom it is directed. Except as modified above, discovery shall be in accordance with Part IV of the Rules.

ATTESTED COPIES hereof shall be sent by the Clerk of the Commission to:

Edward L. Flippen, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street,
Richmond, Virginia 23219; C. Meade Browder, Jr., Senior Assistant Attorney General, Division
of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor,
Richmond, Virginia 23219; and the Commission's Office of General Counsel and Divisions of
Energy Regulation, Public Utility Accounting, and Economics and Finance.