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The Public Utilities  
Commission of Ohio

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

**VECTREN ENERGY DELIVERY OF OHIO  
STANDARD SERVICE OFFER  
POST-AUCTION REPORT**

**AUGUST 19, 2008**



**Case No. 07-1285-GA-EXM**

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## **VECTREN STANDARD SERVICE OFFER AUCTION RESULTS**

### **Background**

On April 30, 2008, the Commission approved a joint stipulation and authorized Vectren Energy Delivery of Ohio, Inc. (VEDO) to conduct an auction for pricing of its wholesale natural gas supply. On August 19, 2008, VEDO conducted an auction for pricing of its wholesale natural gas supply for the period October 2008 through March 2010. 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 eighteen-month term of the initial Standard Service Offer (SSO) phase 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 VEDO'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 natural gas futures prompt month settlement price and the Retail Price Adjustment will be the SSO price for sales customers not otherwise participating in VEDO's choice program. This SSO price would replace the GCR mechanism during the initial SSO phase period.

### **Benchmark Price Analysis**

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 VEDO's GCR rate has differed from the NYMEX historically. This will help to serve as a benchmark for evaluating the auction results since an acceptable Retail Price Adjustment should not differ substantially from recent historical data assuming expected market conditions at the time of the auction are not outside the range of recent historical conditions.

The Staff's analysis focused on comparing VEDO's Expected Gas Cost (EGC) and Gas Cost Recovery (GCR) rates with the NYMEX natural gas futures monthly settlement price over the past several years, paying particular attention to the most recent market data for calendar year 2007. The data were adjusted to account for the significant impacts to the natural gas markets in the months immediately following the devastating Hurricanes Katrina, Rita, and Wilma of 2005. Attachment A to this report contains the results of that analysis. For each month of years 2004 through 2007, the deltas between the NYMEX settle price and VEDO's EGC and GCR were calculated. These deltas were then multiplied by the monthly volumes in order to give each month an appropriate weight. Rather than relying on a simple average of these deltas over the entire period, averages of these weighted EGC and GCR deltas were calculated for each year. These annual deltas show consistent increases over the four year time frame. As a result, Staff believed it appropriate to recognize the growing basis differential in the most recent time periods in its analysis. Staff also decided to utilize the GCR deltas rather than the EGCs, the difference between the two being the monthly true-ups between the EGC estimates and the actual costs

incurred. Although the EGC is intended to be an estimate of the current market price, the GCR adjustments nonetheless are actual costs incurred that need to 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. Since the GCR comparison incorporates those true-ups, and the EGC does not, Staff concludes that the calculated differential between NYMEX and the GCR provides the most reasonable benchmark.

The Staff believes that this historical analysis provides some validity and guidance, but any auction result needs to also be considered under current market conditions. The fact that six suppliers participated in the auction aids in concluding the result 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 moving to a market-based SSO regime rather than the GCR with its lagged adjustments.

### **Auction Results**

World Energy Solutions (World Energy) was retained by VEDO to be the auction manager. The auction was conducted on August 19, 2008 from the World Energy offices in Dublin, Ohio with bidders participating over the internet. For purposes of the auction, VEDO's aggregate load was separated into six equal tranches. Six bidders were certified to participate in the auction with each participant bidding on a maximum of two 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 six 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 \$2.50 by VEDO. The round-by-round decrement to that initial price was set at five cents and was also announced in advance. VEDO also reserved the right to adjust the decrements if circumstances dictate after consultation with Staff.

The auction concluded after four rounds with a final Retail Price Adjustment of \$2.35/Mcf. Four bidders were awarded the six tranches. In the fourth and final round, the exact number of tranches were bid; so, according to the auction rules, this ended the auction. A round-by-round bidding summary is attached to this report as Attachment B with the bidders remaining unidentified. 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 \$2.35 is within what 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 \$2.35 as the SSO Retail Price Adjustment for the period October 2008 through March 2010. Although Staff is recommending approval for the eighteen-month period, it recognizes the Commission retains the authority to terminate the SSO and direct VEDO 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 bidders' identities for a period of 60 days after Commission approval of the auction.

## ATTACHMENT A

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## VECTREN HISTORICAL NYMEX VS. GCR/EGC \*\*\*

Effective Date	GCR *	EGC *	Nymex Close \$ per mcf	Nymex - EGC	Nymex - GCR	Monthly Volumes (mcf)	EGC Weighted Volumes	NYMEX Weighted Volumes	GCR Weighted Volumes
1/1/2004	7.3592	7.1582	\$6.0294	\$1.1288	\$1.3298	7529029	53,894,295	45,395,616	55,407,630
2/1/2004	7.0675	7.0157	\$5.6618	\$1.3539	\$1.4057	6509693	45,670,053	36,856,350	46,007,255
3/1/2004	6.7801	6.7283	\$5.0490	\$1.6793	\$1.7311	4685861	31,527,879	23,659,004	31,770,606
4/1/2004	7.1167	7.0649	\$5.2598	\$1.8051	\$1.8569	2652658	18,740,784	13,952,461	18,878,171
5/1/2004	8.0556	7.8029	\$5.8186	\$1.9843	\$2.2370	1204449	9,398,195	7,008,240	9,702,559
6/1/2004	9.1106	8.8579	\$6.5490	\$2.3089	\$2.5616	887194	7,581,518	5,679,271	7,900,658
7/1/2004	9.1487	8.896	\$6.0206	\$2.8754	\$3.1281	795640	7,078,013	4,790,221	7,279,072
8/1/2004	8.5189	8.5111	\$5.9294	\$2.5817	\$2.5895	815510	6,940,887	4,835,495	6,947,248
9/1/2004	8.5746	8.5668	\$4.9824	\$3.5844	\$3.5922	890649	7,630,012	4,437,528	7,636,959
10/1/2004	8.0388	8.031	\$5.6108	\$2.4202	\$2.4280	1742425	13,993,415	9,776,371	14,007,006
11/1/2004	8.0319	7.9263	\$7.4765	\$0.4498	\$0.5554	2993997	23,731,318	22,384,531	24,047,485
12/1/2004	8.1562	8.0506	\$7.8196	\$0.2310	\$0.3366	4885444	39,330,755	38,202,256	39,846,658
2004 Total						35572549	255617105	216977342.3	269431307.5
				Average EGC/ NYMEX Delta	Average GCR/ NYMEX Delta	Weighted Avg EGC Rate		Weighted Avg NYMEX Rate	Weighted Avg GCR Rate
				\$1.87	\$1.98	\$7.47		\$6.10	\$7.57
				Weighted Avg EGC / NYMEX Delta		\$1.37		Weighted Avg GCR / NYMEX Delta	
								\$1.47	
1/1/2005	7.8819	7.7763	\$8.0912	\$1.6851	\$1.7907	5839989	45,413,506	35,572,404	46,030,209
2/1/2005	7.6434	7.3668	\$8.1647	\$1.2021	\$1.4787	5021075	36,989,255	30,953,451	38,378,085
3/1/2005	7.5827	7.3061	\$8.1804	\$1.1257	\$1.4023	4485197	32,769,298	27,720,276	34,009,903
4/1/2005	9.0104	8.7338	\$7.1784	\$1.5544	\$1.8310	2327385	20,328,915	16,709,255	20,970,670
5/1/2005	9.6719	9.5653	\$6.6157	\$2.9496	\$3.0562	1413581	13,521,326	9,351,808	13,672,014
6/1/2005	9.142	9.0354	\$6.0029	\$3.0325	\$3.1391	830596	7,504,767	4,986,019	7,593,309
7/1/2005	10.0621	9.9555	\$6.8392	\$3.1163	\$3.2229	715606	7,124,216	4,894,184	7,200,499
8/1/2005	10.2677	10.2015	\$7.4971	\$2.7044	\$2.7906	705885	7,201,086	5,292,081	7,261,933
12/1/2005	11.5924	11.6737	\$10.9608	\$0.7129	\$0.6316	5078471	59,284,547	55,664,025	58,871,667
2005 Total						26417785	230134916	191143484	233988289
				Average EGC/ NYMEX Delta	Average GCR/ NYMEX Delta	Weighted Avg EGC Rate		Weighted Avg NYMEX Rate	Weighted Avg GCR Rate
				\$2.01	\$2.15	\$8.71		\$7.24	\$8.86
				Weighted Avg EGC / NYMEX Delta		\$1.48		Weighted Avg GCR / NYMEX Delta	
								\$1.62	
1/1/2006	11.365	11.4463	\$11.2069	\$0.2394	\$0.1581	4544043	52,012,479	50,924,466	51,643,049
2/1/2006	10.0143	10.1623	\$8.2353	\$1.9270	\$1.7790	4331219	44,015,147	35,668,862	43,374,126
3/1/2006	9.7956	9.9436	\$6.9725	\$2.9711	\$2.8231	3769319	37,480,600	26,281,761	36,922,741
4/1/2006	9.6462	9.7942	\$7.0912	\$2.7030	\$2.5550	1798468	17,814,555	12,753,254	17,348,382
5/1/2006	9.0367	9.2871	\$7.0569	\$2.2302	\$1.9798	1134632	10,537,441	8,006,942	10,253,329
6/1/2006	9.4281	9.6785	\$5.8068	\$3.8697	\$3.6193	783261	7,580,792	4,549,825	7,384,663
7/1/2006	9.6024	9.8528	\$5.7716	\$4.0812	\$3.8308	651650	6,420,577	3,761,043	6,257,404
8/1/2006	9.7447	10.1074	\$6.9039	\$3.2035	\$2.8408	655987	6,830,323	4,528,883	6,392,397
9/1/2006	9.8969	10.2598	\$6.6824	\$3.5772	\$3.2146	801857	8,226,732	5,358,291	7,935,899
10/1/2006	8.671	9.0337	\$4.1186	\$4.9151	\$4.5524	2007233	18,132,741	8,267,045	17,404,717
11/1/2006	8.6631	8.9599	\$7.0127	\$1.9472	\$1.6504	3230975	28,949,213	22,658,004	27,990,260
12/1/2006	9.1447	9.4415	\$8.1549	\$1.2866	\$0.9898	3881699	36,649,061	31,654,875	35,496,973
2006 Total						27590343	274249661.3	214413252	268403939.1
				Average EGC/ NYMEX Delta	Average GCR/ NYMEX Delta	Weighted Avg EGC Rate		Weighted Avg NYMEX Rate	Weighted Avg GCR Rate
				\$2.75	\$2.50	\$9.94		\$7.77	\$9.73
				Weighted Avg EGC / NYMEX Delta		\$2.17		Weighted Avg GCR / NYMEX Delta	
								\$1.96	

**\* Includes Storage Carrying Costs**  
**\*\* Excludes Sept. through Nov. 2005**

## ATTACHMENT B

VECTREN ENERGY DELIVER OF OHIO AUCTION SUMMARY				
AUGUST 19, 2008				
ROUND	ROUND 1	ROUND 2	ROUND 3	ROUND 4
MARKETER \ PRICE	\$2.50	\$2.45	\$2.40	\$2.35
A	2	2	1	0
B	2	2	1	1
C	2	2	2	2
D	1	1	1	1
E	0	0	0	0
F	2	2	2	2
Total	9	9	7	6
Ratio	1.5	1.5	1.167	1