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February 16, 2010

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

PUCO

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RECEIVED-DOCKETING DIV

RE: *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services, Case No. 08-1344-GA-EXM.*

Enclosed please find the Staff's Report regarding Columbia's Standard Choice Offer auction conducted on February 23, 2010.

Respectfully submitted,

Steve Puican

Steve Puican
Co-Chief, Rates & Tariffs/Energy & Water Division
Public Utilities Commission of Ohio

Enclosure
cc: Parties of Record

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**A Report by the Staff of the
Public Utilities Commission of Ohio**

**Columbia Gas of Ohio
Post Auction Report**

Case No. 08-1344-GA-EXM

February 23, 2010

COLUMBIA GAS STANDARD OFFER AUCTION REPORT

Background

On December 2, 2009 the Commission approved a joint stipulation which authorized Columbia Gas of Ohio, Inc. (Columbia) to conduct an auction for pricing of its wholesale natural gas supply. With that approval, the Commission authorized Columbia to implement two consecutive one-year Standard Service Offer (SSO) periods beginning April 1, 2010. The SSO service is a regulated sales service that would replace Columbia's current Gas Cost Recovery (GCR) service. On February 23, 2010, Columbia conducted an auction to determine the SSO price for the period April 1, 2010 through March 31, 2011. The auction participants bid a "Retail Price Adjustment" (RPA) in the form of an adder to the monthly New York Mercantile Exchange (NYMEX) settlement price for natural gas futures. The RPA is a fixed dollar amount over the twelve-month term of the initial 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 NYMEX), to Columbia's city gate. If the result of the auction is approved by the Commission, the sum of the monthly NYMEX settlement price and the RPA will be the SSO price for those sales customers who are not participating in Columbia's choice program or any other transportation service program.

Auction Process

World Energy Solutions (World Energy) was retained by Columbia to be the auction manager. World Energy is a provider of energy purchasing services using a proprietary, web-based platform. The auction was conducted on February 23, 2010 from the World Energy offices in Dublin, Ohio with bidders participating over the internet. For purposes of the auction, Columbia's aggregate load was separated into sixteen equal tranches. Fifteen bidders were certified and participated in the auction with each participant bidding on a maximum of four 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 RPA). If there are more tranches bid than are available, a new round is conducted at a lower announced price. The auction continues until exactly sixteen tranches are bid and the announced price at that round becomes the RPA for the SSO. The monthly SSO rate per Mcf to Columbia's sales customers is then the sum of the NYMEX closing price for the prompt month plus the auction based RPA.

Auction Results

The auction began with an initial RPA of \$3.00 and rounds proceeded initially in decrements of \$0.20 from that starting point. After round four there were 31 tranches bid at an RPA of \$2.40 at which point the decrement was reduced to \$0.10 for round five. The decrement was further reduced to \$0.05 between rounds eight and nine when the RPA reached \$2.00 and eighteen tranches were bid. Because there was an over-subscription of tranches bid in round nine at an RPA of \$1.95 followed by an under-subscription in round 10 at \$1.90, according to the auction rules the auction reverted to the RPA of the previous over-subscribed round and the auction continued with decrements of \$0.01 per round from that point beginning in round 11. All bidders

that submitted bids in the last oversupplied round were eligible to bid. Once again there was an over-subscription of tranches bid in round twelve at an RPA of \$1.93 followed by an under-subscription in round thirteen at \$1.92 and, according to the auction rules, the immediately prior round becomes the final round. The auction thus concluded after thirteen rounds with a final RPA of \$1.93 with seven bidders awarded tranches. Because seventeen tranches were bid in that round and only sixteen were available, the size of the tranches was adjusted downward such that the aggregate size of the seventeen tranches equaled the aggregate size of the initial sixteen tranches. Seventeen tranches were awarded to the seven winning bidders according to their bids in round twelve. All tranches will be priced at NYMEX plus \$1.93 per Mcf. Attachment 1 to this report is a round-by-round bidding summary with the bidders remaining unidentified. Each column of the table shows the number of tranches bid by each bidder at the shown price.

Staff Recommendation

Attachment 2 to this report summarizes the historic relationship between NYMEX and Columbia's GCR and Expected Gas Cost (EGC) rates. Although it is the EGC that is intended to reflect the current market price at a point in time, the GCR adjustments are nonetheless actual costs incurred that should be accounted for in the analysis. As a result, the Staff included comparisons with both the GCR and EGC historical rates. The Staff's analysis focused on comparing Columbia's EGC and GCR with the NYMEX monthly settlement price for the period January 2000 through December 2009. The data were adjusted to account for the inconsistency between a monthly NYMEX price and quarterly EGCs prior to November 2004 at which time Columbia began updating the EGC monthly. To remove this distortion, the second and third months of each quarter through November 2004 were deleted to eliminate the two months in which the EGC was not adjusted. In addition, a one month lag of the NYMEX price was utilized to reflect the 30 day lag required of GCR filings prior to November 2004. A final adjustment was to eliminate the months September 2005 through December 2005. These were the months immediately after hurricane Katrina disrupted drilling activity in the Gulf of Mexico which resulted in a temporary alteration in the historic relationship between NYMEX and the EGC/GCR including months where the NYMEX price exceeded Columbia's GCR. The differentials or "deltas" between the adjusted EGC and NYMEX data and the adjusted GCR and NYMEX data were then calculated. The deltas were averaged over several different time periods to identify any trends that might exist in the data. The data shows a slight reduction in the deltas beginning in 2008 but otherwise they are remarkably consistent over time. The EGC deltas being in the \$2.24 to \$2.52 range and the GCR deltas being in the \$2.87 to \$3.06 range. Using those figures as benchmarks, the auction result of \$1.93 is well below that historic range.

Based on Staff's observations, the auction was fair and devoid of any indications of collusion or other anomalies. Further, there were no deviations from the agreed upon auction procedures. Staff believes the fact that fifteen suppliers participated in an auction that lasted thirteen rounds argues that the resulting price is an accurate reflection of the natural gas market at the time of the auction. Staff also finds that the \$1.93 RPA will result in a reasonable commodity price to customers relative to other practical pricing alternatives and historical experience. Staff recommends the Commission approve \$1.93 as the RPA for SSO customers for the period April 1, 2010 through March 31, 2011. Although Staff is recommending approval for this 12-month

period, it recognizes the Commission retains the authority to terminate the SSO and direct Columbia to return to an alternative pricing 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 45 days after Commission approval of the auction.

Attachment 1

COLUMBIA GAS STANDARD SERVICE OFFER AUCTION SUMMARY

ROUND	1	2	3	4	5	6	7	8	9	10
PRICE	\$3.00	\$2.80	2.60	\$2.40	\$2.30	\$2.20	\$2.10	\$2.00	\$1.95	\$1.90
A	2	2	2	2	2	2	2	2	2	2
B	4	4	4	4	4	4	4	0	-	-
C	0	-	-	-	-	-	-	-	-	-
D	4	4	4	4	4	4	4	3	3	2
E	4	4	4	4	4	4	4	4	4	0
F	3	3	3	0	-	-	-	-	-	-
G	3	3	3	2	2	1	0	-	-	-
I	4	4	4	4	4	4	4	4	4	4
J	2	2	2	2	2	2	2	2	2	2
K	2	2	2	1	0	-	-	-	-	-
L	4	4	4	4	4	3	1	0	-	-
M	2	2	2	2	2	2	2	2	2	2
N	0	-	-	-	-	-	-	-	-	-
O	1	1	1	1	1	1	0	-	-	-
P	1	1	1	1	1	1	1	1	1	1
TOTAL	36	36	36	31	30	28	24	18	18	13

ROUND	11	12	13
PRICE	\$1.94	\$1.93	\$1.92
A	2	2	2
D	2	2	2
E	4	4	0
I	4	4	4
J	2	2	2
M	2	2	2
P	1	1	1
TOTAL	17	17	13

Attachment 2
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NYMEX					
MONTH	MONTHLY SETTLE	Columbia EGC	Columbia GCR	Delta EGC	Delta GCR
Jan-00	\$2.3440				
Feb-00	\$2.6100	\$ 4.3118	\$ 4.6126	\$ 1.9678	\$ 2.2686
May-00	\$3.0890	\$ 4.7082	\$ 5.0998	\$ 2.0982	\$ 2.4898
Aug-00	\$3.8200	\$ 6.3185	\$ 6.2593	\$ 3.2295	\$ 3.1703
Nov-00	\$4.5410	\$ 7.3400	\$ 7.3751	\$ 3.5200	\$ 3.5551
Feb-01	\$6.2930	\$ 8.6152	\$ 8.6478	\$ 4.0742	\$ 4.1068
May-01	\$4.8910	\$ 7.8151	\$ 8.7972	\$ 1.5221	\$ 2.5042
Aug-01	\$3.1670	\$ 6.2649	\$ 6.0178	\$ 1.3739	\$ 1.1268
Nov-01	\$3.2020	\$ 5.6076	\$ 4.8160	\$ 2.4406	\$ 1.6490
Feb-02	\$2.0060	\$ 5.0040	\$ 4.9120	\$ 1.8020	\$ 1.7100
May-02	\$3.3190	\$ 5.0580	\$ 4.5143	\$ 3.0520	\$ 2.5083
Aug-02	\$2.9760	\$ 5.8443	\$ 6.2493	\$ 2.3253	\$ 2.9303
Nov-02	\$4.1260	\$ 5.9586	\$ 6.5415	\$ 2.9826	\$ 3.5655
Feb-03	\$5.6600	\$ 6.6942	\$ 7.5774	\$ 2.5682	\$ 3.4514
May-03	\$5.1230	\$ 7.7324	\$ 9.6100	\$ 2.0724	\$ 3.9500
Aug-03	\$4.6930	\$ 7.6087	\$ 7.2329	\$ 2.4857	\$ 2.1099
Nov-03	\$4.4590	\$ 6.6590	\$ 6.9019	\$ 1.9660	\$ 2.2089
Feb-04	\$5.7750	\$ 7.0391	\$ 7.2311	\$ 2.5801	\$ 2.7721
May-04	\$5.9350	\$ 7.4853	\$ 7.7167	\$ 1.7103	\$ 1.9417
Aug-04	\$6.0480	\$ 8.5253	\$ 9.0723	\$ 2.5903	\$ 3.1373
Nov-04	\$7.6260	\$ 7.9117	\$ 8.7947	\$ 1.8637	\$ 2.7467
Dec-04	\$7.9760	\$ 8.3541	\$ 9.2371	\$ 0.3781	\$ 1.2611
Jan-05	\$6.2130	\$ 9.0079	\$ 9.8909	\$ 2.7949	\$ 3.6779
Feb-05	\$6.2880	\$ 8.1992	\$ 8.8763	\$ 1.9112	\$ 2.5883
Mar-05	\$6.3040	\$ 8.0786	\$ 8.7557	\$ 1.7746	\$ 2.4517
Apr-05	\$7.3230	\$ 9.1343	\$ 9.8144	\$ 1.8113	\$ 2.4914
May-05	\$6.7480	\$ 9.0300	\$ 9.8144	\$ 2.2820	\$ 3.0664
Jun-05	\$6.1230	\$ 8.9910	\$ 9.7724	\$ 2.8680	\$ 3.6494
Jul-05	\$6.9760	\$ 9.3385	\$ 10.1199	\$ 2.3625	\$ 3.1439
Aug-05	\$7.6470	\$ 9.5295	\$ 10.6184	\$ 1.8825	\$ 2.9714
Jan-06	\$11.4310	\$ 12.9968	\$ 13.6149	\$ 1.5658	\$ 2.1839
Feb-06	\$8.4000	\$ 11.3020	\$ 12.8061	\$ 2.9020	\$ 4.4061
Mar-06	\$7.1120	\$ 9.8885	\$ 11.3926	\$ 2.7765	\$ 4.2806
Apr-06	\$7.2330	\$ 8.9324	\$ 10.8496	\$ 1.6994	\$ 3.6166
May-06	\$7.1980	\$ 8.5893	\$ 10.6830	\$ 1.3913	\$ 3.4850
Jun-06	\$5.9250	\$ 9.7322	\$ 10.3652	\$ 3.8072	\$ 4.4402
Jul-06	\$5.8870	\$ 8.3307	\$ 10.1640	\$ 2.4437	\$ 4.2770
Aug-06	\$7.0420	\$ 9.7107	\$ 9.3756	\$ 2.6687	\$ 2.3336
Sep-06	\$6.8160	\$ 9.9368	\$ 10.5185	\$ 3.1208	\$ 3.7025
Oct-06	\$4.2010	\$ 9.7891	\$ 9.1170	\$ 5.5881	\$ 4.9160
Nov-06	\$7.1530	\$ 10.0976	\$ 10.0227	\$ 2.9446	\$ 2.8697
Dec-06	\$8.3180	\$ 10.5315	\$ 10.2488	\$ 2.2135	\$ 1.9308
Jan-07	\$5.8380	\$ 9.2773	\$ 10.1011	\$ 3.4393	\$ 4.2631
Feb-07	\$6.9170	\$ 9.9120	\$ 9.6787	\$ 2.9950	\$ 2.7617
Mar-07	\$7.5470	\$ 9.8773	\$ 10.1126	\$ 2.3303	\$ 2.5656

**Attachment 2
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Apr-07	\$7.5580	\$ 9.7153	\$ 8.8584	\$ 2.1573	\$ 1.3004
May-07	\$7.5080	\$ 8.8608	\$ 10.2430	\$ 1.3528	\$ 2.7350
Jun-07	\$7.5190	\$ 8.9114	\$ 10.2083	\$ 1.3924	\$ 2.6893
Jul-07	\$6.9290	\$ 8.3696	\$ 10.0463	\$ 1.4406	\$ 3.1173
Aug-07	\$6.1100	\$ 9.5796	\$ 9.7536	\$ 3.4696	\$ 3.6436
Sep-07	\$5.4300	\$ 9.7702	\$ 9.8042	\$ 4.3402	\$ 4.3742
Oct-07	\$6.4230	\$ 9.6979	\$ 9.2624	\$ 3.2749	\$ 2.8394
Nov-07	\$7.2690	\$ 10.9592	\$ 10.2598	\$ 3.6902	\$ 2.9908
Dec-07	\$7.2030	\$ 11.0507	\$ 10.4504	\$ 3.8477	\$ 3.2474
Jan-08	\$7.1720	\$ 12.1038	\$ 10.3781	\$ 4.9318	\$ 3.2061
Feb-08	\$7.9960	\$ 12.3251	\$ 10.9515	\$ 4.3291	\$ 2.9555
Mar-08	\$8.9300	\$ 13.5373	\$ 11.0430	\$ 4.6073	\$ 2.1130
Apr-08	\$9.5780	\$ 14.4472	\$ 12.0961	\$ 4.8692	\$ 2.5181
May-08	\$11.2800	\$ 14.1925	\$ 12.1505	\$ 2.9125	\$ 0.8705
Jun-08	\$11.9160	\$ 11.5530	\$ 13.3627	\$ (0.3630)	\$ 1.4467
Jul-08	\$13.1050	\$ 10.9077	\$ 14.2726	\$ (2.1973)	\$ 1.1676
Aug-08	\$9.2170	\$ 10.7837	\$ 13.5417	\$ 1.5667	\$ 4.3247
Sep-08	\$8.3940	\$ 10.7791	\$ 10.9022	\$ 2.3851	\$ 2.5082
Oct-08	\$7.4720	\$ 8.2766	\$ 10.2569	\$ 0.8046	\$ 2.7849
Nov-08	\$6.4690	\$ 8.5430	\$ 11.9338	\$ 2.0740	\$ 5.4648
Dec-08	\$6.8880	\$ 8.3347	\$ 11.9292	\$ 1.4467	\$ 5.0412
Jan-09	\$6.1360	\$ 6.5550	\$ 9.4267	\$ 0.4190	\$ 3.2907
Feb-09	\$4.4760	\$ 5.9014	\$ 9.6772	\$ 1.4254	\$ 5.2012
Mar-09	\$4.0560	\$ 6.4304	\$ 9.4689	\$ 2.3744	\$ 5.4129
Apr-09	\$3.6310	\$ 6.5550	\$ 7.6892	\$ 2.9240	\$ 4.0582
May-09	\$3.3210	\$ 5.9014	\$ 6.7759	\$ 2.5804	\$ 3.4549
Jun-09	\$3.5380	\$ 6.4304	\$ 7.3049	\$ 2.8924	\$ 3.7669
Jul-09	\$3.9490	\$ 5.9732	\$ 6.8477	\$ 2.0242	\$ 2.8987
Aug-09	\$2.8430	\$ 5.7806	\$ 5.1620	\$ 2.9376	\$ 2.3190
Sep-09	\$3.7300	\$ 6.0064	\$ 5.3878	\$ 2.2764	\$ 1.6578
Oct-09	\$4.2890	\$ 5.5151	\$ 4.8965	\$ 1.2261	\$ 0.6075
Nov-09	\$4.4860	\$ 7.5114	\$ 5.5883	\$ 3.0254	\$ 1.1023
Dec-09	\$3.9860	\$ 6.8050	\$ 4.8819	\$ 2.8190	\$ 0.8959

	EGC	GCR
Average Delta 2000 - 2009:	\$ 2.4342	\$ 2.9512
Average Delta 2001 - 2009:	\$ 2.4194	\$ 2.9556
Average Delta 2002 - 2009:	\$ 2.4233	\$ 2.9909
Average Delta 2003 - 2009:	\$ 2.4161	\$ 3.0101
Average Delta 2004 - 2009:	\$ 2.4254	\$ 3.0154
Average Delta 2005 - 2009:	\$ 2.4791	\$ 3.0618
Average Delta 2006 - 2009:	\$ 2.5238	\$ 3.1033
Average Delta 2007 - 2009:	\$ 2.4450	\$ 2.9332
Average Delta 2008 - 2009:	\$ 2.2621	\$ 2.8778
Average Delta 2009:	\$ 2.2437	\$ 2.8888