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February 8, 2011

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

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*

Dear Docketing Division:

Enclosed please find the Staff's Report regarding Columbia's Standard Service Offer auction conducted on February 8, 2011.

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 Number 08-1344-GA-EXM

February 8, 2011

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, the first beginning April 1, 2010. The SSO service is a regulated sales service, which replaces Columbia's previous 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 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. By Finding and Order signed February 24, 2010, the results of the initial auction were approved and a RPA of \$1.93 was placed in effect for the time period April 1, 2010 through March 31, 2011.

On February 8, 2011, Columbia conducted its second SSO auction. If the result of that auction is approved by the Commission, the SSO price for those sales customers who are not participating in Columbia's choice program or any other transportation service program will be the sum of the monthly NYMEX settlement price and the RPA as determined by the auction. This SSO price will be in effect from April 1, 2011 through March 31, 2012.

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 8, 2011 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. Sixteen 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 12 month SSO period. 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 \$2.50 and rounds proceeded initially in decrements of \$0.20 from that starting point. After round two there were thirty-nine tranches bid at an RPA of \$2.30, at which point the decrement was reduced to \$0.10 for round three. The decrement was

further reduced to \$0.05 between rounds six and seven when the RPA reached \$1.90 and twenty-two tranches were bid. Because there was an over-subscription of tranches bid in round six at an RPA of \$1.90 followed by an under-subscription in round seven at \$1.85, per the auction rules the auction reverted to the RPA of the previous over-subscribed round and the auction continued with decrements of \$0.01 beginning in round eight. All bidders who submitted bids in the last oversupplied round were eligible to bid. Once again, there was an over-subscription of tranches bid in round eight at \$1.89. In round nine, at an RPA of \$1.88, exactly sixteen tranches were bid. Per the auction rules, this marked the conclusion of the auction and a final RPA of \$1.88.

Sixteen tranches were awarded to the seven winning bidders according to their bids in round nine. All tranches will be priced at NYMEX plus \$1.88 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

Based on Staff's observations, the auction was fair and devoid of any indications of collusion or other anomalies and the result was an accurate reflection of the natural gas market at the time of the auction. Staff also finds that the \$1.88 RPA will result in a reasonable commodity price to customers relative to other practical pricing alternatives and historical experience. Staff recommends the Commission approve \$1.88 as the RPA for SSO customers for the period April 1, 2011 through March 31, 2012. Although Staff is recommending approval for this 12-month period, it recognizes that 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 30 days following Commission approval of the auction.

COLUMBIA GAS OF OHIO STANDARD SERVICE OFFER AUCTION SUMMARY									
February 8, 2011									
	ROUND 1	ROUND 2	ROUND 3	ROUND 4	ROUND 5	ROUND 6	ROUND 7	ROUND 8	ROUND 9
PRICE	\$2.50	\$2.30	\$2.20	\$2.10	\$2.00	\$1.90	\$1.85	\$1.89	\$1.88
A	4	4	4	4	4	4	4	4	4
B	4	4	4	4	4	0	—	—	—
C	4	4	3	3	3	2	1	2	1
D	4	4	4	4	4	4	4	4	4
E	2	2	2	2	2	2	2	2	2
F	0	—	—	—	—	—	—	—	—
G	4	4	4	4	4	4	0	4	0
H	3	3	3	3	3	0	—	—	—
I	2	2	2	1	1	0	—	—	—
J	4	4	4	4	4	0	—	—	—
K	2	—	—	—	—	—	—	—	—
L	1	1	1	0	—	—	—	—	—
M	4	4	4	4	4	3	1	2	2
N	2	2	2	2	2	2	2	2	2
O	4	1	1	1	1	1	1	1	1
P	1	0	—	—	—	—	—	—	—
Total	45	39	38	36	36	22	15	21	16