



**Public Utilities
Commission**

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February 26, 2013

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

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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. 08-1444-GA-EXM and 12-2637-GA-EXM*
1344

Enclosed please find the Staff's Report regarding Columbia's Standard Choice Offer auction conducted on February 26, 2013.

Respectfully submitted,

Ross Willis
Chief, Rates 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 and 12-2637-GA-EXM

February 26, 2013

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. Upon approval, the Commission authorized Columbia to implement two consecutive one-year Standard Service Offer's (SSO). The first SSO began April 1, 2010. The SSO 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 of April 1, 2010 through March 31, 2011. The auction participants bid an "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. The Commission signed on February 24, 2010 the Finding and Order from the initial auction and approved an RPA of \$1.93 that was placed in effect for the time period of April 1, 2010 through March 31, 2011.

On February 8, 2011, Columbia conducted its second SSO auction to determine the RPA price to be in effect from April 1, 2011 through March 31, 2012. That auction resulted in an RPA of \$1.88 per Mcf. The SSO price for those sales customers not participating in Columbia's choice program or any other transportation service program is the sum of the monthly NYMEX settlement price and the \$1.88 RPA.

In its December 2, 2009 Entry, the Commission also authorized Columbia to move to a Standard Choice Offer (SCO) beginning April 1, 2012. Under the SCO mechanism, auction participants are bidding on the right to serve specific end-use customers rather than providing natural gas on a wholesale basis to Columbia for resale to end-use customers. Unlike with SSO suppliers, under the SCO, winning bidders would have a direct retail relationship with these customers. On September 7, 2011 the Commission issued a Second Opinion and Order which reaffirmed its December 2, 2009 authorization to proceed with its transition from the SSO to an SCO auction. On February 14, 2012, Columbia conducted its first Standard Choice Offer auction to determine the RPA to be in effect from April 1, 2012 through March 31, 2013. The auction resulted in an RPA price of \$1.53 per McF.

On January 9, 2013, the Commission's Opinion and Order stipulated that the balancing fee will be reduced from \$.32 to \$.27 per Mcf and that the fee will be charged directly to customers instead of suppliers. Comparatively, last years RPA price of \$1.53 would have been \$1.21 had the balancing fee previously been billed directly to customers.

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 26, 2013 at 9:00am 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. Eleven bidders were certified and eleven actually 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 the end of that round becomes the RPA for the 12 month SCO period. The monthly SCO 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 \$1.80. The initial rounds that followed decreased in decrements of \$0.10 from the initial RPA price. Eleven companies were initially approved for a total of 40 approved tranches. The first round resulted in 35 tranches bid. After round three, there were 34 tranches bid at an RPA of \$1.60. Round five had an RPA price of \$1.40 and 27 tranches were bid. In round six the number of tranches bid fell to 19 at an RPA price of \$1.30. Per the auction rules round seven's RPA will fall \$.05 to \$1.25. Round 7 resulted in an under-subscription because only 14 of the 16 available tranches were bid. Since the round was under-subscribed all the companies from the previous round (6) are able to participate in the new round (8) with the decrements now decreasing by \$.01. In round eight, 16 tranches were bid at a final RPA price of \$1.29 thus marking the conclusion of the auction process.

Sixteen tranches were awarded to the six winning bidders according to their bids in round eight. All tranches will be priced at NYMEX plus \$1.29 per Mcf. Attachment 1 enclosed in 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 \$1.29 RPA will result in a reasonable commodity price to customers relative to other practical pricing alternatives and historical experience. Staff recommends the Commission approve \$1.29 as the RPA for SCO customers for the period April 1, 2013 through March 31, 2014. Although Staff is recommending approval for this 12-month period, it recognizes that the Commission retains the authority to terminate the SCO 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 therefore recommends the Commission grant confidentiality of the

bidder's identities for a period of 15 days following Commission approval of the auction result.

Attachment 1

| Companies | Approved # of Tranches | Round Price | <u>\$1.80</u> | <u>\$1.70</u> | <u>\$1.60</u> | <u>\$1.50</u> | <u>\$1.40</u> | <u>\$1.30</u> | <u>\$1.25</u> | <u>\$1.29</u> |
|-------------------|---------------------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | Round | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| A | 4 | | 4 | 4 | 4 | 4 | 4 | 2 | 1 | 2 |
| B | 2 | | 1 | 1 | 1 | 1 | 1 | 1 | 0 | - |
| C | 4 | | 4 | 4 | 4 | 4 | 0 | - | - | - |
| E | 4 | | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 4 |
| F | 4 | | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| G | 4 | | 4 | 4 | 3 | 1 | 0 | - | - | - |
| H | 4 | | 4 | 4 | 4 | 4 | 4 | 2 | 1 | 1 |
| I | 4 | | 4 | 4 | 4 | 4 | 4 | 1 | - | - |
| J | 4 | | 0 | - | - | - | - | - | - | - |
| K | 2 | | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |
| L | 4 | | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| # of Tranches Bid | 40 | | 35 | 35 | 34 | 32 | 27 | 19 | 14 | 16 |

The Public Utilities Commission of Ohio

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