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January 19, 2016

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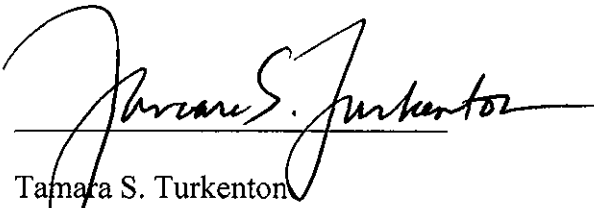
PUCO

Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus, Ohio 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 and 12-2637-GA-EXM.*

Enclosed please find Staff's Report regarding Columbia's Standard Choice Offer auction conducted on January 19, 2016.

Respectfully submitted,



Tamara S. Turkenton  
Chief, Regulatory Services Division  
Public Utilities Commission of Ohio



David Lipthratt  
Chief, Research and Policy 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, Inc.  
Post Auction Report  
Case Number 08-1344-GA-EXM and 12-2637-GA-EXM**

## 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 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. 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 entry dated December 2, 2009, 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, winning bidders under the SCO 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, authorizing Columbia 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.

<sup>1</sup> The RPA is a fixed dollar amount over the term of the SCO phase and reflects the bidders' estimate of their incremental cost to deliver the required amount of gas from the point of purchase to Columbia's city gate.

<sup>2</sup> Since NYMEX is priced in dekatherms, the NYMEX price must be converted to Mcf before calculating the final retail rate.

Comparatively, the April 1, 2012, through March 31, 2013, RPA price of \$1.53 would have been \$1.21 had the balancing fee previously been billed directly to customers.

On February 26, 2013, Columbia conducted its second SCO auction. The auction settled on a RPA price of \$1.29.

On February 4, 2014, Columbia conducted its third SCO auction. The auction settled on a RPA price of \$1.40.

*On January 27, 2015, Columbia conducted its fourth SCO auction. The auction settled on a RPA price of \$1.29.*

### **2016 Auction Process**

The auction was conducted on January 19, 2016, by EnerNoc, formerly World Energy Solutions, at their offices in Dublin, Ohio, with bidders participating over the internet. For purposes of the auction, Columbia's aggregate load was separated into 16 equal tranches that were designed to be of approximately equal size and composition. The tranches consist of SCO customers (i.e. Choice eligible customers) and Default Sales Service (DSS - ineligible customers and transition customers). The SCO component of the tranches consists of actual residential and non-residential customers while the DSS component consists of natural gas volumes only and not specific customers. Winning bidders will directly serve SCO customers on a retail basis and will provide an additional amount of gas to serve its share of the ineligible and transition pool directly to Columbia for resale to DSS customers.

Ten bidders were certified to participate in the auction with each participant bidding on a maximum of four tranches. One bidder withdrew prior to the auction and a second bidder was disqualified prior to the auction. The auction was conducted as a descending clock auction in which 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 16 tranches are bid and the announced price at that round becomes the RPA for both the SCO and DSS customers. The initial bid price was set by Columbia, in consultation with Staff. The round-by-round decrement to the initial price was determined in advance. Columbia reserved the right to adjust the decrements if circumstances dictated it and after consultation with Staff. If there are fewer than 16 tranches bid in any round, the auction will revert to the previous round of bids in which there was an over-supply of tranches bid, and the auction will continue in decrements of \$0.01. If fewer than 16 tranches are bid once again, the undersupplied tranches will be awarded proportionally to the remaining bidders from the prior round based on their bids in that round. All tranches would be priced at the RPA applicable to that prior over-subscribed round.

## **2016 Auction Results**

The auction began with an initial RPA of \$1.60 with rounds proceeding in decrements of \$0.10 from there. At \$1.40 the auction went from an over-supplied round to an under-supplied round, which resulted in the auction proceeding back to the last over-supplied round at \$1.50 less one cent. The auction concluded after the tenth round, when the auction closed with 16 tranches being bid. This occurred at \$1.43. The RPA of \$1.43 was awarded to six bidders. The round by round results are shown on Attachment A.

## **Recommendations**

Based on Staff's observations, the auction was fair and devoid of any indications of collusion or other anomalies. Staff believes that since eight suppliers participated in the auction, the resulting price is an accurate reflection of the natural gas market at the time of the auction. Staff also finds that the \$1.43 RPA will result in a reasonable commodity price to customers relative to other practical pricing alternatives and historical experience. Staff recommends the Commission approve the \$1.43 RPA as the RPA for both SCO and DSS customers for the period April 1, 2016, through March 31, 2017. Although Staff is recommending approval for this 12-month period, it recognizes the Commission retains the authority to terminate the SCO and direct Columbia to return to a SSO or other commodity supply service at any time should circumstances warrant.

## **Confidentiality**

If the auction results are approved by the Commission, the winning bidders wish to remain anonymous due to their pending negotiations in securing capacity from the interstate pipeline. If their identities are revealed, this may have a negative impact on their negotiating position with the pipelines. Staff recommends to the Commission that they grant confidentiality of the bidder's identities for a period of 15 days after Commission approval of the auction.

# Attachment A

Columbia Gas of Ohio, Inc.

1/19/2016

	ROUND 1	ROUND 2	ROUND 3	ROUND 4	ROUND 5	ROUND 6	ROUND 7	ROUND 8	ROUND 9	ROUND 10
PRICE	\$1.60	\$1.50	\$1.40	\$1.49	\$1.48	\$1.47	\$1.46	\$1.45	\$1.44	\$1.43
A	1	1	1	1	1	1	1	1	1	1
B	4	4	4	4	4	4	4	4	4	4
C	4	4	4	4	4	4	4	4	4	4
D	4	4	3	4	4	4	4	4	4	4
E	3	2	0	1	1	1	1	1	1	0
F	4	4	2	4	2	2	2	2	2	2
G	1	1	1	1	1	1	1	1	1	1
H	0	0	0	0	0	0	0	0	0	0
Total Tranches Bid	21	20	15	19	17	17	17	17	17	16
Ratio	131.25%	125.00%	93.75%	118.75%	106.25%	106.25%	106.25%	106.25%	106.25%	100.00%

## Winning Bidders

Company A	1
Company B	4
Company C	4
Company D	4
Company F	2
Company G	1