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January 30, 2018

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 and 12-2637-GA-EXM.*

Enclosed please find Staff's Report regarding Columbia's Standard Choice Offer auction Conducted on January 30, 2018.

Respectfully submitted,

Tamara S. Turkenton
Director, Rates and Analysis
Public Utilities Commission of Ohio

David Lipthart
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 in Case No. 08-1344-GA-EXM, 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 (SSO) and Default Sales Service (DSS). The SSO, is a regulated sales service that replaced Columbia's previous Gas Cost Recovery (GCR) service whereas the DSS is a regulated sales service provided by Columbia to customers not eligible to participate in the Choice program or Governmental Aggregation Programs, and PIPP customers. 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 first SSO term). 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. On February 24, 2010, the Commission issued a Finding and Order in Case No. 08-1344-GA-EXM, consisting of an approved RPA of \$1.93 from the initial auction 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 Opinion and Order in Case No. 08-1344-GA-EXM dated December 2, 2009, the Commission also authorized Columbia to move to a Standard Choice Offer (SCO) and Default Sales Service (DSS) 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, 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 required the balancing fee be reduced from \$.32 to \$.27 per Mcf and that the fee be charged directly to customers instead of suppliers.

¹ 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.

² 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.

The following is a historical summary of the RPA prices:

- The second SCO auction conducted on February 26, 2013, resulted in a RPA price of \$1.29.
- The third SCO auction conducted on February 4, 2014, resulted in a RPA price of \$1.40.
- The fourth SCO auction conducted on January 27, 2015, resulted in a RPA price of \$1.29.
- The fifth SCO auction conducted on January 19, 2016, resulted in a RFP price of \$1.43.
- On January 31, 2017, Columbia conducted its sixth SCO auction. The auction resulted in a RFP price of \$1.45.

2018 Auction Process

The auction was conducted on January 30, 2018, 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.

10 bidders were certified to participate in the auction with each participant bidding on a maximum of four tranches. 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 reverts 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.

2018 Auction Results

The auction began with an initial RPA of \$1.90 with rounds subsequently proceeding in decrements of \$0.10. At \$1.30 the decrement was reduced by \$0.05 for subsequent rounds. At \$1.20 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 \$1.25 less one cent. The auction concluded after the twelfth round, when the auction went from an over-supplied to an under-supplied round. This occurred at \$1.22. The final RPA was established by moving back to the last over-supplied round at \$1.23. The RPA of \$1.23 was awarded to eight bidders. A round-by-round bidding summary is attached to this report with the bidders remaining unidentified.

Recommendations

Based on Staff's observations, the auction was fair and devoid of any indications of collusion or other anomalies. Staff believes that since ten 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 \$1.23 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 \$1.23 RPA as the RPA for both SCO and DSS customers for the period April 1, 2018, through March 31, 2019. 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 the Commission grant confidentiality of the bidder's identities for a period of 15 days after Commission approval of the auction.

Appendix A

Columbia Gas of Ohio, Inc.

1/30/2018

	ROUND 1	ROUND 2	ROUND 3	ROUND 4	ROUND 5	ROUND 6	ROUND 7	ROUND 8	ROUND 9	ROUND 10	ROUND 11	ROUND 12
PRICE	\$1.90	\$1.80	\$1.70	\$1.60	\$1.50	\$1.40	\$1.30	\$1.25	\$1.20	\$1.24	\$1.23	\$1.22
A	3	3	3	3	3	3	2	2	1	2	1	1
B	4	4	4	4	4	4	4	4	4	4	4	4
C	2	2	2	2	2	2	2	2	1	1	1	1
D	4	4	4	4	4	3	1	1	1	1	1	1
E	2	2	2	1	1	1	1	1	0	1	1	1
F	0	0	0	0	0	0	0	0	0	0	0	0
G	4	4	4	4	4	4	4	4	0	4	4	0
H	4	4	4	4	4	4	0	0	0	0	0	0
I	2	2	2	2	2	2	2	2	2	2	2	2
J	4	4	4	4	4	4	4	4	4	4	4	4
Total Tranches Bid	29	29	29	28	28	27	20	20	13	19	18	14
Ratio	181.25%	181.25%	181.25%	175.00%	175.00%	168.75%	125.00%	125.00%	81.25%	118.75%	112.50%	87.50%

Winning
Bidders

of
Tranches

Company A 1
Company B 4
Company C 1
Company D 1
Company E 1
Company G 4
Company I 2
Company J 4