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January 27, 2020

PUCO

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

RE: *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc., for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services, Case No. 20-120-GA-UNC.*

Enclosed please find Staff's Report regarding Vectren's Standard Choice Offer auction conducted on January 27, 2020.

Respectfully submitted,

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

David Liphtratt
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**

**Vectren Energy Delivery of Ohio
Post Auction Report
Case Number 20-120-GA-UNC**

Background

On April 30, 2008, in Case No. 07-1285-GA-EXM, the Commission issued an Opinion and Order approving the terms of a February 4, 2008, joint stipulation entered into by the parties in this proceeding. With that approval, the Commission authorized Vectren Energy Delivery of Ohio, Inc. (VEDO) to conduct an auction for pricing of its wholesale natural gas supply. Per the stipulation, the parties agreed to develop standard terms and conditions under which Standard Choice Offer (SCO) commodity service would be provided subsequent to the initial Standard Service Offer (SSO) period. By Finding and Order issued on July 23, 2008, the Commission approved an amendment to the joint stipulation which authorized VEDO to hold an auction to secure natural gas supplies for its SSO and SCO customers.

On August 19, 2008, VEDO conducted its initial SSO auction to establish an SSO rate for the period October 1, 2008, through March 30, 2010. The auction participants bid a Retail Price Adjustment (RPA)¹ in the form of an adder to the monthly New York Mercantile Exchange (NYMEX) settlement price for natural gas futures. That auction resulted in an RPA of \$2.35 per Mcf. The SSO rate is the sum of the RPA plus the NYMEX prompt month settlement price after conversion from Dth to Mcf².

On January 12, 2010, VEDO conducted its initial SCO auction to determine the SCO rate for the period April 1, 2010, through March 31, 2011. The SCO is a further evolution of the SSO concept in which Choice eligible customers are placed into a closer retail relationship with competitive retail natural gas service (CRNGS) providers who will be bidding to serve them. Because the winning bidders will now be retail providers to these SCO customers, all auction participants are required to be certified CRNGS providers and only Choice eligible customers are included in the SCO pools.

A separate Default Sales Service (DSS) (replacing the initial SSO) was established to serve PIPP customers and customers otherwise ineligible for Choice. Each winning SCO bidder will be allocated a proportional share of the DSS pool's requirements. This load will be provided to VEDO on a wholesale basis for redelivery to the end-use DSS customers. Unlike SCO customers, DSS customers will not be directly served by the SCO providers. The rate charged to DSS customers will be identical to the SCO rate determined through the auction although they will continue to have their gas supplied by VEDO.

This Staff Report presents the results of the auction and the Staff's recommendation.

¹ The RPA is a fixed dollar amount over the 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 VEDO's city gate.

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

2020 Auction Process

The SCO and DSS auction was conducted on January 27, 2020, by Enel X at their offices in Dublin, Ohio, with bidders participating over the internet. For purposes of the auction, VEDO's aggregate load was separated into nine 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 DSS customers (i.e. Choice ineligible 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. Seven bidders were certified to participate in the auction with each participant bidding on a maximum of three tranches. 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 DSS pool directly to VEDO for resale to DSS customers.

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 nine 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 VEDO and the round-by-round decrement to that initial price was also determined in advance. VEDO reserved the right to adjust the decrements if circumstances dictated it and after consultation with Staff. If there are fewer than nine 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 to a sealed bid auction. The bidders in the oversupplied round will submit a sealed bid indicating the minimum price at which it will be willing to supply a tranche. The final RPA will be the maximum price at which exactly nine tranches are bid. If less than nine tranches are bid at the same clearing price, the load will be prorated amongst the suppliers that submitted a bid at the price of the last over-supplied round.

Auction Results

The auction began with an initial RPA of \$1.50 and ended after Round 9 with a final RPA of \$0.75 per Mcf. Four (4) bidders were awarded tranches. 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 seven 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 \$0.75 per Mcf 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 \$0.75 per Mcf RPA as the RPA for both SCO and DSS customers for the period April 1, 2020, through March 31, 2021. Although Staff recommends approval for this 12-month period,

it is acknowledged that the Commission retains the authority to terminate the SCO and direct VEDO 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.

Appendix A

VECTREN ENERGY DELIVERY OF OHIO AUCTION SUMMARY									
1/27/2020									
	ROUND 1	ROUND 2	ROUND 3	ROUND 4	ROUND 5	ROUND 6	ROUND 7	ROUND 8	ROUND 9
PRICE	\$1.50	\$1.40	\$1.30	\$1.20	\$1.10	\$1.00	\$0.90	\$0.80	\$0.75
Company A	3	3	3	3	3	3	3	3	2
Company B	3	3	3	3	3	3	3	0	X
Company C	3	3	3	3	3	3	3	3	3
Company D	3	3	3	3	2	1	0	X	X
Company E	2	2	2	2	2	1	1	1	1
Company F	3	3	3	3	3	3	3	3	3
Company G	3	3	3	3	3	3	3	0	X
Total Tranches Bid	20	20	20	20	19	17	16	10	9

Winning Bidders

Company A	2 Tranches
Company C	3 Tranches
Company E	1 Tranche
Company F	3 Tranches