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A report by the Staff of the  
Public Utilities Commission of Ohio

**DOMINION EAST OHIO STANDARD  
SERVICE OFFER POST-AUCTION REPORT**

**JULY 22, 2008**



**Case No. 07-1224-GA-EXM**

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## **DOMINION STANDARD SERVICE AUCTION RESULTS**

### **Background**

On June 18, 2008 the Commission approved a joint stipulation which authorized The East Ohio Gas Company d/b/a Dominion East Ohio (Dominion) to conduct an auction for pricing of its wholesale natural gas supply for the period September 1, 2008 through March 31, 2009. On July 22, 2008 Dominion conducted an auction consistent with that Opinion and Order. The auction participants bid a "Retail Price Adjustment" in the form of an adder to the monthly NYMEX settlement price for natural gas futures. The Retail Price Adjustment is a fixed dollar amount over the seven month term and reflects the bidders' estimate of their incremental cost to deliver the required amount of gas from the Henry Hub (which is priced at the NYMEX), to Dominion's city gate. If the result of the auction is approved by the Commission, the sum of the monthly NYMEX settlement price and the Retail Price Adjustment will be the Standard Service Offer (SSO) price for sales customers not otherwise participating in Dominion's choice program. Supplies procured through the auction will serve Dominion's aggregate sales requirements for mercantile and non-mercantile sales customers served under the General Sales Service and Large Volume General Sales rate schedules including Percentage of Income Payment Plan (PIPP) customers.

On August 30, 2006, the Commission issued an Entry authorizing Dominion to replace its then current Gas Cost Recovery (GCR) mechanism with an SSO rate of NYMEX plus a \$1.44 Retail Price Adjustment. That approval was based on the recommendation contained in a Staff Report filed on August 29, 2006 which concluded that \$2.504 was the upper bound of what would be considered a reasonable benchmark for the auction result. This benchmark was based on Staff's analysis of the historic relationship between the NYMEX price and Dominion's GCR. The Staff believes that historical analysis still has some validity, but any auction result needs to also consider current market conditions compared to conditions that existed at the time of the first auction. An increase in basis costs at major supply points, an increase in Dominion's fuel retention rate and a significantly smaller spread between the cost of gas in storage compared to current NYMEX futures prices, all combined to put upward pressure on the auction results as compared to the previous auction. Regardless of the final price, the fact that thirteen suppliers participated, (one more than with the last auction) argues for a conclusion that the resulting auction price is an accurate reflection of the natural gas market at the time of the auction. In evaluating the auction result Staff believes the Commission should also consider more subjective factors such as the benefit to the Choice program that results from continuation of the market based SSO regime rather than a return to the GCR with its lagged adjustments.

### **Auction Results**

World Energy Solutions (World Energy) was retained by Dominion to be the auction manager. World Energy is the successor company to Energy Gateway, which conducted

Dominion's initial SSO auction. The auction was conducted on July 22, 2008 from the World Energy offices in Dublin, Ohio with bidders participating over the internet. For purposes of the auction Dominion's aggregate load was separated into 12 tranches. Thirteen bidders were certified to participate in the auction with each participant bidding on a maximum of 4 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 Retail Price Adjustment). If there are more tranches bid than are available, a new round is conducted at a lower announced price. The auction continues until exactly 12 tranches are bid and the announced price at that round becomes the Retail Price Adjustment for the SSO. The initial bid price was set at \$3.50 by agreement between Dominion and Staff. The round-by-round decrement to that initial price was also determined in advance based on the ratio of tranches bid to tranches available according to the following formula:

<u>Supply Ratio</u>	<u>Decrement</u>
Greater than 2.5	20 cents
1.75 to 2.5	10 cents
Less than 1.75	5 cents

Dominion also reserved the right to adjust the decrements if circumstances dictate after consultation with Staff.

The auction concluded after 12 rounds with a final Retail Price Adjustment of \$2.33. Five bidders were awarded tranches. Because there was an over-subscription of tranches bid in round 8 at \$2.35 followed by an under-subscription in round 9 at \$2.30, the auction price was reset at \$2.34 and the auction continued at 1 cent decrements. Once again, in round 11 there was an over-subscription followed by an under-subscription in round 12. According to the auction rules, this ended the auction. Tranches were allocated by reverting to the number of tranches bid in the previous over-subscribed round. 14 tranches were bid in that round by five bidders. The total available load is adjusted so that each tranche is now 1/14<sup>th</sup> of the available load rather than 1/12<sup>th</sup>. Each winning bidder is then awarded the number of newly calculated tranches bid in that over-subscribed round. A round-by-round bidding summary is attached to this report with the bidders not identified. Based on Staff's observations the auction was fair and devoid of any indications of collusion or other anomalies. The resulting Retail Price Adjustment of \$2.33 is within the \$2.504 that Staff has determined is a reasonable benchmark by which to evaluate the auction result. Based on the criteria discussed above, Staff recommends the Commission approve the \$2.33 as the SSO Retail Price Adjustment for the period September 1, 2008 through March 31, 2009. Although Staff is recommending approval for the seven month period we recognize the Commission will retain authority to terminate the SSO and direct Dominion to return to GCR 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 60 days after Commission approval of the auction results.

DOMINION AUCTION SUMMARY												
	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	\$3.50	\$3.30	\$3.10	\$2.90	\$2.70	\$2.50	\$2.40	\$2.35	\$2.30	\$2.34	\$2.33	\$2.32
A	3	3	3	3	1	1	0	0	0	0	0	0
B	3	3	0	0	0	0	0	0	0	0	0	0
C	4	4	4	4	3	2	1	1	1	1	1	1
D	4	4	4	4	4	4	4	4	4	4	4	4
E	4	4	4	4	4	4	4	4	2	4	4	1
F	4	4	4	4	4	4	2	0	0	0	0	0
G	4	4	4	4	4	4	4	4	2	4	4	4
H	4	4	4	4	4	0	0	0	0	0	0	0
I	4	4	4	4	4	2	0	0	0	0	0	0
J	4	4	4	4	4	4	2	0	0	0	0	0
K	4	4	4	4	0	0	0	0	0	0	0	0
L	1	1	1	1	1	1	1	1	1	1	1	1
N	3	0	0	0	0	0	0	0	0	0	0	0
Total	46	43	40	36	33	26	18	14	10	14	14	11
Ratio	3.83	3.58	3.33	3.00	2.75	2.17	1.50	1.17	0.83	1.17	1.17	0.92