

FILE



The Public Utilities
Commission of Ohio

RECEIVED-DOCKETING DIV

2009 FEB 10 PM 5:12

PUCO

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

Dominion East Ohio Standard Service
& Standard Choice Offers Post Auction Report

Case No. 07-1224-GA-EXM

February 10, 2009

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business.
Technician SM Date Processed FEB 10 2009



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 auctions for pricing of its natural gas supply. Dominion was authorized to conduct a wholesale auction for the seven month period September 1, 2008 through March 31, 2009 and subsequent one-year auctions for April 1, 2009 through March 31, 2011. On July 22, 2008 Dominion conducted the seven month auction consistent with that Opinion and Order. In this auction the participants bid a "Retail Price Adjustment" (RPA) in the form of an adder to the monthly NYMEX settlement price for natural gas futures. The RPA is added to the NYMEX prompt month settlement price to arrive at the Standard Service Offer (SSO) price. The SSO is the price paid by Choice eligible, PIPP and Choice ineligible sales customers for the period of September 1, 2008 through March 31, 2009. The Retail Price Adjustment of \$2.33 per MCF was approved by the Commission.

The first of two one-year auctions took place on February 10, 2009 for volumes delivered April 1, 2009 through March 31, 2010. This auction differed from previous SSO auctions as the participants bid on tranches of retail customers as well as tranches of wholesale volumes. For this one-year auction, two separate auctions were held. The first auction determined the SSO price for PIPP and Choice ineligible customers. This SSO auction was for three tranches of approximately five billion cubic feet (BCF) of gas annually. The auction utilized the same descending clock format as was used in the two prior SSO auctions.

A second auction was held immediately following the SSO auction to determine the price for the Standard Choice Offer (SCO) rate which will apply to Choice eligible sales customers. The SCO is a further evolution of the SSO concept in which Choice eligible customers will be placed into a closer retail relationship with competitive retail natural gas service (CRNGS) providers who will be bidding to serve them. This retail relationship with the CRNGS suppliers will take place in the form of the winning bidder's name being placed on their respective tranche(s) of customers' monthly bills from Dominion. Because the winning bidders will now be retail providers to these customers, all auction participants were required to be certified CRNGS providers. Choice eligible customers will pay the SCO rate and applicable sales tax, instead of paying excise tax as do SSO customers.

The SCO auction was for nine tranches of approximately 3.4 BCF of gas annually, with each tranche comprised of approximately 24,300 residential customers and 2,400 non-residential customers. The SCO auction will utilize a descending clock format initially. If the SCO price descends to the level of the winning SSO price, the auction format will change to an ascending bid format in which CRNGS bidders initially bid \$75,000 per tranche. If there are more than nine tranches bids (over-supplied round), the initially bid amount of \$75,000 will increase by another \$75,000 per tranche or \$150,000 per tranche and will continue until the number of tranches bid are less than nine (under-supplied

round). Once the bidding goes from an over-supplied round to an under-supplied round, the process will be brought to closure through the use of sealed bids. The winning bids will be based on highest price(s) per tranche with the clearing price equaling the highest nine tranches bid. The bidders will pay to Dominion the winning amount per tranche. All ascending bid amounts (payments) will be credited by Dominion to its Transportation Migration Rider – Part B.

The use of the SSO price as a floor for the SCO reflects the belief that PIPP and Choice ineligible customers should not face a rate higher than Choice eligible sales customers. The switch to an ascending clock auction once that floor is reached nonetheless recognizes that bidders would likely place additional value on acquiring specific retail customers rather than generic wholesale supplies. The ascending auction ending with the sealed bids is intended to capture that additional value for customers.

In Dominion's initial auction on August 29, 2006, (Case No. 05-474-GA-ATA) approved by the Commission on August 30, 2006, Dominion replaced its Gas Cost Recovery (GCR) mechanism with an SSO rate of NYMEX plus a \$1.44 RPA. The August 30th approval was recommended by the Staff based on its analyses of GCR to NYMEX pricing in the years prior to the initial auction. The Staff believed that, at the time, these historic comparables were valid. However these historic comparables are nearly two and half years old and the market for natural gas is continually changing. Staff believes that the February 10, 2009 auction results (SSO and SCO) should be evaluated based on the existing and future market conditions in place at the time of the auction. Market conditions such as basis costs at major supply points, increase in Dominion's fuel retention rate and the spread between the winter and summer NYMEX future prices are all factored in by the auction participants. The current SSO RPA of \$2.33 was approved by the Commission despite being significantly higher than the initial \$1.44 RPA. This difference simply reflected market conditions at the time of the auctions and illustrates the shortcomings in evaluating the auction results based on historical comparisons.

Regardless of the final price, the fact that seven and ten suppliers participated in the SSO and SCO auctions respectively, argues that the resulting auctions prices are accurate reflections of the natural gas market at the time of these auctions. In evaluating the auctions results Staff believes that 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 and SCO 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 (formerly Energy Gateway), had conducted Dominion's prior SSO auctions on August 29, 2006 and July 22, 2008. The SSO and SCO auctions were conducted on February 10, 2009 from the World Energy offices in Dublin, Ohio with bidders participating over the internet.

For purposes of the SSO auction, Dominion aggregated the load of the PIPP and Choice ineligible customers into 3 tranches. Eight bidders were certified to participate in the SSO auction with each participant bidding on a maximum of 1 tranche. Seven bidders actually participated in the auction. The auction was conducted as a descending clock auction. Under this type of auction the participants bid on one tranche that they are willing to supply at an announced price (the Retail Price Adjustment - RPA). If there are more tranches bid than are available (over-supplied round), a new round is conducted at a lower announced price. The auction continues until exactly 3 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 \$2.75 by agreement between Dominion and Staff. The round-by-round decrement to that initial price was adjusted after consultation with Staff and OCC according to the following ranges:

<u>RPA Bid Range</u>	<u>Decrement</u>
\$2.75 to \$1.75	25 cents
\$1.74 to \$1.60	15 cents
\$1.59 to \$1.40	10 cents
Less than \$1.40	5 cents

The SSO auction concluded after eight rounds with a final Retail Price Adjustment (RPA) of \$1.40 per MCF.

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.

For purposes of the SCO auction, Dominion aggregated the load of the Choice eligible sales customers into 9 tranches. Ten bidders were certified to participate in the SCO auction with each participant bidding on a maximum of 3 tranches. The initial bid price was set at \$2.00 after consultation between Dominion, Staff and OCC. The round-by-round decrement to that initial price was 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 reserved the right to adjust the decrement if circumstances dictate after consultation with Staff and OCC.

The auction was conducted as a descending clock auction in a fashion similar to the SSO auction until the SCO price reached the SSO price of \$1.40 per MCF. Once the SCO price equaled the SSO, World Energy initiated the ascending bid portion of the auction.

In the ascending auction, all bidders who were active in the final round of the descending auction were eligible to bid. The ascending auction represented an amount per tranche, initially set at \$75,000 that a bidder would pay to Dominion to serve a tranche of customers. As the amount per tranche increased, the bidders bid fewer tranches. The ascending auction ended after when an over-supplied round was followed and an under-supplied round in rounds ten and eleven. At that point, the auction proceeded with sealed bids submitted by all of the bidders who participated in round ten. The ascending auction sealed bids resulted in four bidders bidding ten tranches at a prorated \$144,900 per tranche. Dominion will credit all of these payments to its Transportation Migration Rider – Part B.

The resulting SSO and SCO RPAs of \$1.40 per MCF are below the initial August 29, 2006 rate of \$1.44 per MCF and the subsequent July 22, 2008 auction rate of \$2.33 per MCF and is representative of the current market conditions. Staff believes these RPA rates are reasonable and recommends the Commission approve \$1.40 per MCF as the SSO and SCO Retail Price Adjustments for the period April 1, 2009 through March 31, 2010. Although Staff is recommending approval for the one year period we recognize the Commission will retain authority to terminate these SSO and SCO rates 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

STANDARD SERVICE OFFER

	Round 1	Round 2	Round 3	Round 4	Round 5	Round 6	Round 7	Round 8
Price	\$2.75	\$2.50	\$2.25	\$2.00	\$1.75	\$1.60	\$1.50	\$1.40
A	1	1	1	1	1	0	0	0
B	1	1	1	1	1	1	1	0
C	1	1	1	1	1	1	0	0
D	1	1	1	1	1	1	1	0
E	1	1	1	1	1	1	1	1
F	1	1	1	1	1	1	1	1
G	1	1	1	1	1	1	1	1
Total	7	7	7	7	7	6	5	3

DOMINION AUCTION SUMMARY

STANDARD CHOICE OFFER

	Round 1	Round 2	Round 3	Round 4	Round 5	Round 6	Round 7	Round 8	Round 9 Ascending \$75,000 per Tranche	Round 10 Ascending \$150,000 per Tranche	Round 11 Ascending \$225,000 per Tranche
Price	\$2.00	\$1.80	\$1.70	\$1.60	\$1.55	\$1.50	\$1.45	\$1.40			
A	3	3	3	3	3	3	3	3	3	3	3
B	3	3	3	1	1	1	1	1	0	0	0
C	3	3	3	3	3	3	2	2	2	2	0
D	3	3	3	3	3	3	3	3	3	3	3
E	2	1	0	0	0	0	0	0	0	0	0
F	3	3	3	3	3	3	3	3	3	2	1
G	1	1	1	1	0	0	0	0	0	0	0
H	2	1	0	0	0	0	0	0	0	0	0
I	1	1	1	0	0	0	0	0	0	0	0
J	0	0	0	0	0	0	0	0	0	0	0
Total	21	19	17	14	13	13	12	12	11	10	7
Ratio	233.33%	211.11%	188.89%	155.56%	144.44%	144.44%	133.33%	133.33%	122.22%	111.11%	77.78%