

**Public Utilities
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January 12, 2010

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

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PUCO

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. 07-1285-GA-EXM.*

Enclosed please find the Staff's Report regarding Vectren's Standard Choice Offer auction conducted on January 12, 2010.

Respectfully submitted,

Steve Puican

Steve Puican
Co-Chief, Rates & Tariffs/Energy & Water Division
Public Utilities Commission of Ohio

Enclosure
cc: Parties of Record

This is to certify that the enclosed documents are an accurate and complete representation of a case file document delivered in the regular course of business
Technician DR Date Processed 1/12/2010

**A Report by the Staff of the
Public Utilities Commission of Ohio**

**Vectren Energy Delivery of Ohio
Post Auction Report**

Case No. 07-1285-GA-EXM

January 12, 2010

VECTREN STANDARD OFFER AUCTION REPORT

Background

On April 30, 2008, 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. By separate Finding and Orders issued July 23, 2008, and November 4, 2009, the Commission approved two amendments to the February 4, 2008, stipulation. The amended stipulation provided that VEDO would hold an auction to secure natural gas supplies for Standard Service Offer (SSO) and Standard Choice Offer (SCO) customers. In the amended stipulation, the parties agreed to develop standard terms and conditions under which SCO commodity service would be provided subsequent to an initial SSO period. The initial SSO period was to be for the period October 1, 2008 through March 30, 2010. On August 19, 2008, an auction was conducted to establish rates for the initial SSO period. The auction 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 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. That auction resulted in an RPA of \$2.35 per Mcf. The SSO rate would be the sum of the RPA plus the NYMEX prompt month settlement price after conversion from Dth to Mcf¹.

On January 12, 2010 VEDO conducted its initial SCO auction, to determine the SCO rate to be effective 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 will be placed into a direct 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 were required to be certified CRNGS providers and only Choice eligible customers are included in the SCO pools. A separate Default Sales Service (DSS) will be established to serve Percentage of Income Payment Plan (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 Since NYMEX is priced in dekatherms, the NYMEX price must be converted to Mcf before calculating the final retail rate.

Auction Process

World Energy Solutions (World Energy) was retained by VEDO to be the auction manager. World Energy is a provider of energy purchasing services using a proprietary, web-based platform. The auction was conducted on January 12, 2010 from the World Energy offices in Dublin, Ohio with bidders participating over the internet. For purposes of the auction, VEDO's aggregate load was separated into six equal tranches. 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. The DSS component consists of natural gas volumes only and not specific customers. The tranches were designed to be of approximately equal size and composition. 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. Six bidders were certified to participate in the auction with each participant bidding on a maximum of 2 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 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 six 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 at \$2.15 by VEDO. The initial round-by-round decrement to that price was determined in advance to be \$0.10. VEDO also reserved the right to adjust the decrements if circumstances dictate after consultation with Staff. In the event there are fewer than six 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. In the event that once again there are fewer than six tranches bid, 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.

Auction Results

The auction began with an initial RPA of \$2.15 and rounds proceeded in decrements of \$0.10 from that starting point. According to the auction rules the decrement was reduced to \$0.05 beginning in round six when the number of tranches bid fell below ten. The auction concluded after nine rounds with a final RPA of \$1.55 Per Mcf when exactly six tranches were bid. Four bidders were awarded tranches. A round-by-round bidding summary is attached to this report with the bidders remaining unidentified. Each column of the table shows the number of tranches bid by each bidder at the shown price.

Based on Staff's observations, the auction was fair and devoid of any indications of collusion or other anomalies. Staff believes the fact that six suppliers participated in the auction argues that the resulting price is an accurate reflection of the natural gas market at the time of the auction. Staff also finds that the \$1.55 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 \$1.55 as the RPA for both SCO and DSS customers for the period

April 1, 2010 through March 31, 2011. Although Staff is recommending approval for this 12-month period, it recognizes the Commission retains the authority to terminate the SCO and direct VEDO to return to a Standard Service Offer or regulated Gas Cost Recovery 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 45 days after Commission approval of the auction results.

VECTREN ENERGY DELIVERY OF OHIO AUCTION SUMMARY

ROUND	1	2	3	4	5	6	7	8	9
PRICE	\$2.15	\$2.05	\$1.95	\$1.85	\$1.75	\$1.70	\$1.65	\$1.60	\$1.55
A	2	2	2	2	1	1	1	1	1
B	2	2	2	2	2	2	2	1	1
C	2	2	2	2	2	2	1	1	0
D	2	2	2	0	-	-	-	-	-
E	2	2	2	2	2	2	2	2	2
F	2	2	2	2	2	2	2	2	2
Total	12	12	12	10	9	9	8	7	6