

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc. for Approval)
of a General Exemption of Certain Natural) Case No. 07-1285-GA-EXM
Gas Commodity Sales Services or)
Ancillary Services.)

ENTRY

The Commission finds:

- (1) Vectren Energy Delivery of Ohio, Inc. (VEDO) is a public utility as defined in Section 4905.02, Revised Code, and, as such, is subject to the jurisdiction of this Commission.
- (2) On April 30, 2008, the Commission issued an Opinion and Order in this proceeding approving the terms of a February 4, 2008, stipulation entered into by the various parties to this proceeding. The stipulation provided that VEDO would hold a series of auctions to secure natural gas supplies for Standard Service Offer (SSO) and Standard Choice Offer (SCO) customers. 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 stipulation, as amended, provided that VEDO would hold an auction to secure natural gas supplies, initially through an SSO structure, and subsequently through an SCO structure. The initial SSO was to be in effect for the period October 1, 2008, through March 30, 2010. The initial SCO period was to be for the twelve-month period beginning April 1, 2010. Under the SSO mechanism, the winning auction bidders were awarded the right to provide natural gas to VEDO on a wholesale basis for redelivery by VEDO to end-use customers. Under the SCO mechanism auction, participants bid on the right to serve specific end-use customers; thus, winning bidders would have a direct retail relationship with SCO customers.
- (3) Since only Choice eligible customers are included in the SCO pools, a separate Default Sales Service (DSS) is also proposed 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.

- (4) On January 8, 2010, the Office of the Ohio Consumers' Counsel (OCC) filed comments in this proceeding expressing opposition to the SCO auction. On January 11, 2010, VEDO filed a motion to strike and reply to the OCC comments asserting the comments should be stricken as having no legal status or relevance to this proceeding.
- (5) The comments filed by OCC are its second attempt to overturn a stipulation to which OCC was a signatory party. In its November 4, 2009, Entry, the Commission rejected OCC's previous attempt at unraveling the stipulation stating

It appears that OCC has had a change of heart since the time that it signed the February 4, 2008 stipulation; but there has been no change of circumstances since our adoption of the stipulation. Essentially, it is too late for the Commission to reconsider the February 4, 2008 stipulation, as OCC suggests, and it is too early for the Commission to consider whether the SCO auction is successful, since Vectren has not yet held its first SCO auction. We are not prepared to unwrap the February 4, 2008 stipulation, which was entered into in good faith by the parties. However, the Commission agrees that we retain authority to exercise oversight of the SCO auction process and that we have the right to reject any auction result or return Vectren to a GCR rate if we find that SCO or SSO services are not in the public interest.

Nothing in OCC's January 8, 2010, comments causes us to reconsider this opinion.

- (6) On January 12, 2010, an auction was conducted to establish rates for the initial SCO period. 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 term of the SCO 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. VEDO contracted for the services of World Energy Solutions, Inc. as the auction manager. The auction was jointly monitored by VEDO, the Office of the Ohio Consumers' Counsel, and the Commission Staff. The auction was conducted as a descending clock auction in which six tranches of customers were bid, with each bidder limited to a maximum of two tranches. During each round, the bid was in the form of the number of tranches each bidder would be willing to supply at an announced RPA rate. If approved, the SCO rate would be the sum of the NYMEX prompt month settlement price (converted from dekatherms [Dth] to thousand cubic feet [Mcf]),¹ plus the RPA as determined by the auction. That RPA would be fixed for the twelve-month term of the SCO period, while the NYMEX would change monthly.

- (7) On January 12, 2010, the Staff filed a post-auction report (Staff Report), detailing the results of the auction. That report contained a round-by-round description of the auction and a conclusion by the Staff that, based on its observations, the auction was fair and devoid of any indications of collusion or other anomalies and was an accurate reflection of the natural gas market at the time of the auction. The result of the auction was a Retail Price Adjustment of \$1.55 per Mcf. The Staff Report recommended that the Commission approve the auction result and authorize VEDO to replace its current SSO mechanism and implement its SCO and DSS rates based on this Retail Price Adjustment beginning April 1, 2010.
- (8) The Commission has reviewed the Staff Report and the auction results and agrees with the Staff's conclusion that the auction results are reasonable and should be approved. VEDO is authorized to replace its SSO and implement its SCO and DSS rates based on the \$1.55 per Mcf RPA and to enter into the necessary arrangements with the winning bidders. The monthly SCO and DSS prices will be calculated as the sum of the NYMEX settlement price for the prompt month (converted from Dth to Mcf) plus an

¹ Since NYMEX is priced in Dth, the NYMEX price must be converted to Mcf before calculating the final retail rate.

RPA of \$1.55 per Mcf. VEDO is further authorized to file the final tariffs necessary to implement the terms of this Entry, as well as the relevant terms of the Commission's April 30, 2008, Opinion and Order

- (9) Unless otherwise ordered by the Commission, the SCO and DSS are approved for the period April 1, 2010, through March 31, 2011. During that time, the Commission reserves all authority to exercise its oversight and specifically reserves the right to terminate the SCO and DSS mechanisms and to implement an alternative pricing methodology at any time, if circumstances warrant
- (10) In order to judge the impact of the SCO on Choice program participation, we direct Staff to work with VEDO to develop information on SCO customer migration from the SCO to a direct contractual relationship with a Choice provider. Staff shall file a report summarizing its findings by October 1, 2010.
- (11) The Staff Report filed on January 12, 2010, was filed without identifying the names of the participating or winning bidders. The Staff Report stated that this was done in order to protect the bidders' positions in negotiations with pipelines for the incremental capacity necessary to meet their obligations as SCO/DSS suppliers. The Staff Report requests that the Commission continue to treat the bidders' names as confidential for a period of 45 days from the date of this Entry. The Commission believes this request is reasonable and should be granted.

It is, therefore,

ORDERED, That VEDO is authorized to replace its existing SSO rate consistent with findings (8) and (9) above for a twelve-month period beginning April 1, 2010. It is, further,

ORDERED, That VEDO is authorized to file four complete copies of tariffs, in final form, consistent with this Entry. VEDO shall file one copy in this case docket and one copy in its TRF docket (or may file electronically as directed in Case No. 06-900-AU-WVR). The remaining two copies shall be designated for distribution to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department. It is, further,

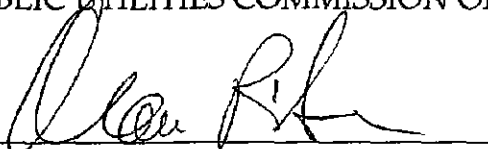
ORDERED, That the effective date of the new tariffs shall be a date not earlier than both the date upon which final tariffs are filed with the Commission and April 1, 2010. The new tariffs shall be effective for services rendered on or after such effective date. It is, further,

ORDERED, That VEDO shall notify all affected customers of the change from the SSO to the SCO pricing methodology via a bill message or via a bill insert, within 30 days of the effective date of the tariffs. A copy of the customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division at least 10 days prior to its distribution to customers. It is, further,

ORDERED, That the identities of the participating bidders be treated as confidential for a period of 45 days from the date of this entry. It is, further,


ORDERED, That a copy of this Entry be served upon all parties of record in this proceeding.


THE PUBLIC UTILITIES COMMISSION OF OHIO


Alan R. Schriber, Chairman


Paul A. Centolella


Ronda Hartman Fergus


Valerie A. Lemmie


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SP:sm

Entered in the Journal

JAN 13 2010



Renee J. Jenkins
Secretary