



Public Utilities Commission

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January 18, 2011

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 18, 2011.

Respectfully submitted,

Steve Puican
Co-Chief, Rates & Tariffs/Energy & Water 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 No. 07-1285-GA-EXM

January 18, 2011

Background

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 in effect for the period October 1, 2008 through March 30, 2010. The initial SCO period was 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, participants bid on the right to serve specific end-use customers; thus, winning bidders would have a direct retail relationship with SCO customers. 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 Vectren. 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. 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 after conversion from Dekatherms (Dth) to Thousand Cubic Feet (Mcf)¹. 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. The SCO rate is the sum of the RPA plus the NYMEX prompt month settlement price after conversion from Dth to Mcf.

A separate Default Sales Service (DSS) was established to serve PIPP customers and customers otherwise ineligible for Choice. Each winning SCO bidder is 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. Although the DSS rate will be identical to the SCO rate determined through the auction, DSS customers will continue to have their gas supplied by VEDO.

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

On January 12, 2010 Vectren conducted its initial SCO auction, to determine the SCO/DSS rate to be effective for the period April 1, 2010 through March 31, 2011. That auction resulted in an adder of \$1.55 per Mcf for SCO and DSS customers. On January 18, 2011, Vectren conducted its second SCO auction for the period April 1, 2011 through March 31, 2012. This Staff Report presents the results of the auction and the Staff's recommendation.

Auction Process

World Energy Solutions (World Energy) was retained by VEDO to be the auction manager. The auction was conducted on January 18, 2011 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 specific 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 two 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 SCO and DSS customers. The initial bid price was set at \$2.00 by VEDO. The round-by-round decrement to that initial price was determined in advance to be \$0.10 until nine or fewer tranches are bid. At that time the decrement would be reduced to \$0.05. 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 \$2.00 and rounds proceeded in decrements of \$0.10 from that starting point. In round six, nine tranches were bid so the subsequent rounds proceeded in decrements of \$0.05. The auction concluded after nine rounds with a final RPA of \$1.35. Three bidders were awarded two tranches each. A round-by-round bidding summary is attached as Appendix A 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 the resulting price is an accurate reflection of the natural gas market at the time of the auction. Staff also finds that the \$1.35 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 \$1.35 as the RPA for both SCO and DSS customers for the period April 1, 2011 through March 31, 2012. 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 other regulated pricing mechanism at any time should circumstances warrant.

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. To accommodate these concerns Staff recommends the Commission grant confidentiality of the bidder's identities for a period of 30 days after Commission approval of the auction.

VECTREN ENERGY DELIVER OF OHIO AUCTION SUMMARY									
January 18, 2011									
	ROUND 1	ROUND 2	ROUND 3	ROUND 4	ROUND 5	ROUND 6	ROUND 7	ROUND 8	ROUND 9
Price	2.00	1.90	1.80	1.70	1.60	1.50	1.45	1.40	1.35
A	2	2	2	2	2	2	2	2	2
B	2	2	2	2	2	1	1	1	0
C	2	2	2	2	2	0	-	-	-
D	2	2	2	2	2	2	1	1	0
E	2	2	2	2	2	2	2	2	2
F	2	2	2	2	2	2	2	2	2
Total Tranches Bid	12	12	12	12	12	9	8	8	6