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March 1, 2011

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

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2011 MAR -1 PM 3:29

RE: *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services, Case No. 07-1224-GA-EXM*

Dear Docketing Division:

Enclosed please find the Staff's Report regarding Dominion's Standard Service Offer and Standard Choice Offer auctions conducted on March 1, 2011.

Respectfully submitted,

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

Enclosure
cc: Parties of Record

DOMINION STANDARD OFFER AUCTION REPORT

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 a series of auctions for pricing of its natural gas supply. Dominion was authorized to conduct a wholesale Standard Service Offer (SSO) auction for the seven month period September 1, 2008 through March 31, 2009 and subsequent one-year retail Standard Choice Offer (SCO) auctions for April 1, 2009 through March 31, 2011 and thereafter until Commission approval is obtained to change these auctions. In both the SSO and SCO auctions the 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 added to the NYMEX prompt month settlement price to arrive at the SSO/SCO price. The SSO is the price paid by Percentage of Income Payment Plan (PIPP) customers and Choice ineligible sales customers. The SCO is the price paid by Choice eligible sales customers. The SCO is a further evolution of the SSO concept in which Choice eligible customers are placed into a direct 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 SCO auction participants are required to be certified CRNGS providers. A further difference is that SCO customers will pay the applicable sales tax, rather than gross receipts excise tax as do SSO customers.

The first of these one-year SSO/SCO auctions took place on February 10, 2009 for volumes delivered April 1, 2009 through March 31, 2010. This auction differed from previous SSO auctions in that two separate auctions were held. The first auction determined the price for SSO customers and utilized the same descending clock format as was used in Dominion's two prior SSO auctions. A second auction was held immediately following the SSO auction to determine the price for SCO customers.

The SCO auction also utilized a descending clock format. According to the auction rules, if the SCO price descends to the level of the winning SSO price and there are more tranches bid than are available, the auction format will change to an ascending bid format. In that format, the SCO bidders are bidding on an amount they are willing to pay to serve SCO tranches at the SSO/SCO price. 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 may place additional value on acquiring specific retail customers rather than generic wholesale supplies. The ascending auction is intended to capture any such additional value for customers. The ascending auction represents an amount per tranche, that a bidder would pay to Dominion to serve a tranche of customers. The result of the February 10, 2009 auction was an RPA of \$1.40 per Mcf for both the SSO and SCO. The SCO ascending auction ended in a

sealed bid in which four bidders bid ten tranches at a prorated \$144,900 per tranche which was passed through to customers by way of the Transportation Migration Rider – Part B.

The second of these one-year SSO/SCO auctions took place on February 9, 2010 for volumes delivered April 1, 2010 through March 31, 2011. These auctions used the same format that was employed in February 2009 with the first auction determining the price for SSO customers and the second auction determining the price for SCO customers. The results of the February 2010 auctions were RPAs of \$1.20 per Mcf for both the SSO and SCO. The SCO ended after five descending rounds of auctions with the nine tranches being bid matched the nine tranches needed, therefore no ascending auction was conducted.

Auction Process for 2011

World Energy Solutions (World Energy) was retained by Dominion to be the auction manager. World Energy is a provider of energy purchasing services using a proprietary, web-based platform. The SSO and SCO auctions were conducted on March 1, 2011 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 three tranches with each auction participant bidding on a maximum of one tranche. The auction is conducted as a descending clock auction. Under this type of auction the participants bid on the number of tranches that they are willing to supply at an announced price (the 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 three tranches are bid and the announced price at that round becomes the RPA for the SSO. In the event that more than three tranches are bid in a round followed by less than three being bid in the next subsequent round, the auction will proceed to a sealed bid auction. The bidders in the oversupplied round will submit a sealed bid indicating the minimum price at which it will be willing to supply a tranche. The final RPA will be the minimum price at which exactly three tranches are bid. If more than three tranches are bid at the same clearing price, the load will be prorated among those suppliers that submitted a bid at that price. The initial bid price was set at \$1.80 per Mcf by agreement between Dominion and Staff. The round-by-round decrement to that initial price was set at \$0.20 per Mcf. According to the auction rules, that decrement could be adjusted up or down in subsequent rounds based on the ratio of the number of tranches bid to tranches available.

SSO Auction Results

Twelve bidders were certified to participate in the SSO auction with each participant bidding on a maximum of one tranche. The auction began with ten tranches bid at the opening RPA of \$1.80. Because the ratio of tranches bid to tranches available exceeded

2.33, consistent with the auction rules, the decrement was held at \$0.20 for round two. The SSO auction concluded after five rounds when exactly three tranches were bid at an RPA of \$1.00 per Mcf. A round-by-round bidding summary is appended to this report as Attachment 1 with the bidders not identified. Each column of the table shows the number of tranches bid by each bidder at the shown price.

SCO Auction Process

For purposes of the SCO auction, Dominion aggregated the load of the Choice eligible sales customers into nine tranches. The initial bid price and round-by-round decrement to that initial price was determined by agreement between Dominion and Staff. According to the auction rules, that decrement could be adjusted up or down in subsequent rounds based on the ratio of the number of tranches bid to tranches available.

The auction is conducted as a descending clock auction in a fashion similar to the SSO auction until the SCO price equaled the RPA from the SSO auction. At this point, if more than nine tranches are bid, the auction shifts to an ascending auction. In the ascending auction, all bidders who submit bids in the final round of the descending auction are eligible to bid. The ascending auction represents an amount per tranche, initially set at \$75,000 that a bidder would pay to Dominion to serve a tranche of customers. In the event that more than nine tranches are bid in a round followed by less than nine being bid in the next subsequent round, the auction will proceed to a sealed bid auction. The bidders in the oversupplied round will submit a sealed bid indicating the maximum price at which it will be willing to supply each tranche bid. The final amount to be paid per tranche will be the maximum price at which exactly nine tranches are bid. If more than nine tranches are bid at the same clearing price, the tranches will be prorated among those suppliers submitting a bid at that price.

SCO Auction Results

Fourteen bidders were certified to participate in the SCO auction with each participant bidding on a maximum of three tranches. The auction began with thirty seven tranches bid at the opening RPA of \$1.60 per Mcf. Because the ratio of tranches bid to tranches available exceeded 2.33, consistent with the auction rules, the decrement was held at \$0.20 for round two. The SCO auction concluded after round four when exactly nine tranches were bid at an RPA of \$1.00 per Mcf. Since the auction ended with the SCO RPA equal to the SSO RPA it was not necessary to conduct the ascending auction and the auction was concluded at that point. A round-by-round bidding summary of the SCO auction is appended to this report as Attachment 1 with the bidders not identified. Each column of the table shows the number of tranches bid by each bidder at the shown price.

Staff Recommendation

Based on Staff's observations the auction was fair and devoid of any indications of collusion or other anomalies. Further, there were no deviations from the agreed upon auction procedures. The resulting SSO/SCO RPA of \$1.00 per MCF is lower than any previously approved RPA for Dominion. Staff believes these RPA rates are reasonable and recommends the Commission approve \$1.00 per MCF as the SSO and SCO Retail Price Adjustments for the period April 1, 2011 through March 31, 2012. Although Staff is recommending approval for the one year period all parties recognize the Commission will retain authority to terminate these SSO and SCO rates and direct Dominion to return to an alternative pricing regime 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 30 days after Commission approval of the auction results.

ATTACHMENT 1

DOMINION EAST OHIO AUCTION SUMMARY

STANDARD SERVICE OFFER (SSO)

	Round 1	Round 2	Round 3	Round 4	Round 5
Price	\$1.80	\$1.60	\$1.40	\$1.20	\$1.00
A	1	1	1	1	0
B	1	1	1	1	0
C	1	0	---	---	---
D	1	1	1	1	1
E	0	---	---	---	---
F	1	1	1	1	1
G	1	1	1	0	---
H	1	1	1	1	0
I	1	1	1	0	---
J	---	---	---	---	---
K	1	1	1	1	0
L	1	1	1	1	1
Total	10	9	9	7	3

DOMINION EAST OHIO AUCTION SUMMARY

STANDARD CHOICE OFFER (SCO)

	Round 1	Round 2	Round 3	Round 4	Round 5
Price	\$1.60	\$1.40	\$1.20	\$1.00	x
A	3	3	3	3	---
B	3	3	1	0	---
C	3	3	3	1	---
D	3	3	0	---	---
E	0	---	---	---	---
F	3	3	3	2	---
G	3	3	3	0	---
H	3	3	3	3	---
I	3	3	3	0	---
J	2	2	1	0	---
K	3	1	0	---	---
L	3	3	1	0	---
M	3	3	3	0	---
N	2	2	2	0	---
Total	37	35	26	9	0