

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

**Vectren Energy Delivery of Ohio
Post Auction Report
Case Number 07-1285-GA-EXM**

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 Finding and Order issued July 23, 2008, the Commission approved an amendment to the joint stipulation. The amended stipulation provided that VEDO would hold an auction to secure natural gas supplies for its Standard Service Offer (SSO) and Standard Choice Offer (SCO) customers. In the February 4, 2008 stipulation, the parties agreed to develop standard terms and conditions under which SCO commodity service would be provided subsequent to the 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 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 VEDO. Because the winning bidders will now be retail providers to these SCO customers, all auction participants were required to be certified CRNGS providers. Only Choice eligible customers are included in the SCO pools. A separate Default Sales Service (DSS) will be established to serve 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

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

continue to have their gas supplied by VEDO. 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 31, 2012 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. Seven 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 the 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. 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. The auction concluded after 13 rounds with a final RPA of \$1.05. Three bidders were awarded tranches. Because there was an over-subscription of tranches bid in round 11 followed by an under-subscription in round 12, according to the auction rules the auction reverted to the RPA of the previous over-subscribed round and the auction continued with decrements of 1 cent per round. Once again there was an under-subscription of tranches bid in round 13, and, according to the auction rules, this ended the auction. According to the auction rules, the tranches were allocated to the three bidders that submitted bids in the final round based on the number of tranches bid in the previous over-subscribed round. All tranches are priced at that previous round's price

of \$1.05. A round-by-round bidding summary is attached 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 the fact that seven 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 \$1.05 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 \$1.05 as the RPA for both SCO and DSS customers for the period April 1, 2012 through March 31, 2013. 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 commodity supply 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 30 days after Commission approval of the auction.

Appendix A

VECTREN ENERGY DELIVER OF OHIO AUCTION SUMMARY													
31-Jan-12													
	ROUND 1	ROUND 2	ROUND 3	ROUND 4	ROUND 5	ROUND 6	ROUND 7	ROUND 8	ROUND 9	ROUND 10	ROUND 11	ROUND 12	ROUND 13
PRICE	\$2.00	\$1.90	\$1.80	\$1.70	\$1.60	\$1.50	\$1.40	\$1.30	\$1.20	\$1.10	\$1.05	\$1.00	\$1.04
Company A	2	2	2	2	1	1	1	1	0	-	-	-	-
Company B	2	2	2	2	2	2	2	2	2	2	2	2	2
Company C	2	2	2	2	2	2	2	2	2	2	2	0	1
Company D	1	1	1	1	1	1	1	1	1	1	0	-	-
Company E	2	2	2	2	2	2	2	2	2	2	2	0	0
Company F	2	2	2	2	2	2	2	2	2	0	-	-	-
Company G	2	2	2	2	2	2	2	2	2	2	2	2	2
Total Tranches Bid	13	13	13	13	12	12	12	12	11	9	8	4	5