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February 28, 2012

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

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 and 11-6076-GA-EXM.*

Enclosed please find the Staff's Report regarding Dominion's combined Standard Service Offer and Standard Choice Offer auction conducted on February 28, 2012.

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**

**Dominion East Ohio
Post Auction Report**

Case Number 07-1224-GA-EXM and 11-6076-GA-EXM

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 auctions were conducted.

The third of these one-year SSO/SCO auctions took place on March 1, 2011 for volumes delivered April 1, 2011 through March 31, 2012. These auctions used the same format that was employed in March 2011 with the first auction determining the price for the SSO customers and the second auction determining the price for SCO customers. The results for these auctions were RPAs of \$1.00 Mcf for both the SSO and SCO. The SCO ended after four descending rounds of auctions with nine tranches being bid, therefore no ascending auction was held.

Auction Process for 2012

By Opinion and Order issued February 14, 2012, in Case No. 11-6076-GA-EXM, the Commission approved a stipulation entered into between Dominion, Staff, and the Ohio Gas Marketers Group; thus, authorizing Dominion to combine the SSO and SCO auctions into a single auction effective with the auction to be conducted in the first quarter of 2012, and thereafter.

On February 28, 2012, a single auction was conducted to establish the rate for both SSO and SCO customers. The auction took place via the internet with XXX bidders participating. Dominion contracted for the services of World Energy Solutions, Inc. (World Energy) as the manager of the auction. Dominion, Staff, and the Office of Consumers' Counsel jointly monitored the auction.

SSO and SCO Auction Process

For purpose of the SSO/SCO combined auction, Dominion aggregated the load of the PIPP, Choice ineligible and Choice eligible customers into nine tranches with each auction participant bidding on a maximum of three tranches. 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 nine tranches are bid and the announced price at that round becomes the RPA for the SSO and SCO. 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 minimum price at which it will be willing to supply a tranche. The final RPA will be the minimum price at which exactly nine tranches are bid. If more than nine 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/SCO Auction Results

Sixteen bidders were certified to participate in the SSO and SCO auction with each participant bidding on a maximum of three tranches. The auction began with 39 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 set at \$0.20 starting in round two. In round seven the decrement was lowered to \$0.10 per round after Dominion consulted with Staff and OCC. In round eight the number of tranches bid fall below the nine tranches required. The declining clock option phase of the combined SSO and SCO auction concluded and the auction immediately proceeded to sealed bids. During the sealed bid process, bidders submitted a form electronically that contained the number of tranches they would be willing to serve and at what price. The sealed bids were assembled from lowest to highest bid price. The clearing price was the price at which the ninth tranche would be served. Through sealed bids a clearing price of \$0.60 per Mcf was achieved for the nine tranches.

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.

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 \$0.60 per MCF is lower than any previously approved RPA for Dominion. Staff believes these RPA rates are reasonable and recommends the Commission approve \$0.60 per MCF as the SSO and SCO Retail Price Adjustments for the period April 1, 2012 through March 31, 2013. 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 15 days after Commission approval of the auction results.

ATTACHMENT 1

DOMINION AUCTION SUMMARY

COMBINED SSO AND SCO BIDS

Bidders	Round 1 \$1.80	Round 2 \$1.60	Round 3 \$1.40	Round 4 \$1.20	Round 5 \$1.00	Round 6 \$0.80	Round 7 \$0.70	Round 8 \$0.60	Sealed Bids
A	3	3	3	3	3	3	1	0	0
B	3	3	3	3	3	0	0	0	0
C	3	3	3	3	1	0	0	0	0
D	3	3	3	3	3	3	3	3	3
E	3	3	3	3	3	3	3	3	3
F	3	3	3	3	3	3	3	0	0
G	3	3	3	3	3	2	1	0	0
H	1	1	1	1	1	1	1	0	0
I	3	3	3	3	3	3	1	0	0
J	3	3	3	3	3	3	3	0	0
K	3	3	3	3	3	3	3	0	3
L	1	1	1	1	1	1	1	0	0
M	1	1	1	1	0	0	0	0	0
N	2	2	2	2	2	2	1	0	0
O	3	3	3	3	3	3	3	0	0
P	1	1	1	1	1	1	1	0	0
Total	39	39	39	39	36	31	25	6	9
Ratio	433.33%	433.33%	433.33%	433.33%	400.00%	344.44%	277.78%	66.67%	100.00%