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January 13, 2015

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


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 13, 2015.

Respectfully submitted,



Tamara S. Turkenton
Chief, Regulatory Services Division
Public Utilities Commission of Ohio



David Liphtratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Enclosure
cc: Parties of Record

PUCO

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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 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. Per the stipulation, the parties agreed to develop standard terms and conditions under which SCO commodity service would be provided subsequent to the initial SSO period. 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.

On August 19, 2008, an auction was conducted to establish rates for the initial SSO for the period October 1, 2008, through March 30, 2010. The auction participants bid a Retail Price Adjustment (RPA)¹ in the form of an adder to the monthly NYMEX settlement price for natural gas futures. 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 Mcf².

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 would 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 providers would take place by having the winning bidder's name 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 were included in the SCO pools. A separate Default Sales Service (DSS) was established to serve PIPP customers and customers otherwise ineligible for Choice. Each winning SCO bidder was allocated a proportional share of the DSS pool's requirements. This load was provided to VEDO on a wholesale basis for redelivery to the end-use DSS customers. Unlike SCO customers, DSS customers were not directly served by the SCO providers. The rate charged to DSS customers were identical to the SCO rate determined through the auction although they continued to have their gas supplied by VEDO. This Staff Report presents the results of the auction and the Staff's recommendation.

¹ 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.

² Since NYMEX is priced in dekatherms, the NYMEX price must be converted to Mcf before calculating the final retail rate.

Auction Process

The auction was conducted on January 13, 2015, by World Energy Solutions (World Energy)³ at their offices in Dublin, Ohio, with bidders participating over the internet. For purposes of the auction, VEDO's aggregate load was separated into nine equal tranches that were designed to be of approximately equal size and composition. 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 while the DSS component consists of natural gas volumes only and not specific customers. 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 three tranches. The auction was conducted as a descending clock auction in which 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 nine 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 by VEDO and the round-by-round decrement to that initial price was also determined in advance. VEDO reserved the right to adjust the decrements if circumstances dictated it and after consultation with Staff.* If there are fewer than nine 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. If fewer than nine tranches are bid once again, 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 \$1.70 with rounds proceeding in decrements of \$0.10 from there. Beginning with Round Seven and following auction rules, the auction proceeded with decrements of \$0.05. The auction concluded after seven rounds with a final RPA of \$1.15. Five bidders were awarded tranches. 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 that since seven suppliers participated in the auction, the resulting price is an accurate reflection of the natural gas market at the time of the auction. Staff also finds that the \$1.15 RPA will result in a reasonable commodity price to customers relative to other practical pricing alternatives and historical

³ World Energy Solutions (World Energy) was retained by VEDO to be their auction manager.

experience. Staff recommends the Commission approve the \$1.15 RPA as the RPA for both SCO and DSS customers for the period April 1, 2015, through March 31, 2016. 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 SSO or other commodity supply service at any time should circumstances warrant.

Confidentiality

If the auction results are approved by the Commission, the winning bidders wish to remain anonymous due to their pending negotiations in securing capacity from the interstate pipeline. If their identities are revealed, this 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.

Appendix A

VECTREN ENERGY DELIVERY OF OHIO AUCTION SUMMARY							
1/13/2015							
	ROUND 1	ROUND 2	ROUND 3	ROUND 4	ROUND 5	ROUND 6	ROUND 7
PRICE	\$1.70	\$1.60	\$1.50	\$1.40	\$1.30	\$1.20	\$1.15
Company A	3	3	3	3	2	1	0
Company B	3	3	3	3	3	3	3
Company C	3	3	3	3	3	3	3
Company D	3	3	3	3	3	0	-
Company E	1	1	1	1	1	1	1
Company F	3	3	3	3	3	3	1
Company G	1	1	1	1	1	1	1
Total Tranches Bid	17	17	17	17	16	12	9

Winning Bidders

Company B	3 Tranches
Company C	3 Tranches
Company E	1 Tranche
Company F	1 Tranche
Company G	1 Tranche