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December 8, 2010

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

Enclosed please find a Staff Report regarding the impact of the Standard Choice Offer on Dominion's Customer Choice program.

Respectfully submitted,

Steve Puican

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

Enclosure

A Report by the Staff of the Public Utilities Commission of Ohio

Review of the Impact of the Standard Choice Offer On Dominion East Ohio's Customer Choice Program

Case No. 07-1224-GA-EXM

December 8, 2010

Ohio | Public Utilities Commission

STANDARD CHOICE OFFER IMPACT EVALUATION

On June 18, 2008 the Commission approved a joint stipulation in Case No. 07-1224-GA-EXM 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. The SCO is an auction for choice-eligible sales customers, whereas the SSO is an auction conducted for Percentage of Income Payment Plan (PIPP) customers and other customers who are not eligible to participate in the Choice program. On February 11, 2010 the Commission issued an Entry approving the SSO/SCO auction results for the period April 1, 2010 through March 31, 2011. In that same Entry, the Commission also stated its desire to subsequently judge the impact of the SCO on Choice program participation. The Commission directed Staff to work with Dominion to develop information on customer migration from the SCO to a direct contractual relationship with a Choice provider. Staff was directed to file a report summarizing its findings by December 1, 2010. By an Attorney Examiner's entry dated November 30, 2010 that deadline was extended to December 8, 2010. This Staff Report is in compliance with the Commission's directive.

On February 9, 2010, Dominion conducted its second SCO auction for the period April 1, 2010 through March 31, 2011. Those customers that were Choice-eligible at the time of the auction were apportioned into nine tranches with each bidder limited to a maximum of three tranches. There were five winning bidders for the nine available tranches, two bidders with three tranches each and three bidders with one tranch each. The SCO customers assigned to each winning bidder have a direct retail relationship with that supplier as would any other Choice customer. The SCO customers would however be served at the SCO retail rate as long as they remained on the SCO. The purpose of this report is to attempt to discern whether the SCO supplier's direct retail relationship with their SCO customers provides them with an advantage in soliciting those customers to switch from the SCO into other Choice products offered by the SCO provider and, in particular, into fixed price contracts. [1]

Staff solicited information from Dominion and the five SCO providers to examine the movement of SCO customers from the SCO to a fixed price contract. Of the nine tranches of customers that were included in the SCO auction, six are being supplied by marketers that do not solicit or serve Choice customers outside of the SCO. Two of the remaining three tranches are being served by marketers that either do not have a fixed price product or were not promoting a fixed price offer to SCO customers. As a result, only one marketer serving one tranch has data useful for evaluating the issue of movement of SCO customers to fixed price Choice offers. For that marketer, 47 percent of its initially

[1] For purposes of this report, a fixed price contract is defined as one with a term of six months or longer.

assigned SCO customers moved from the SCO to Choice. Of those, only 15 percent stayed with that marketer. The remaining 85 percent enrolled with other Choice suppliers. Of the 15 percent that stayed, 97.5 percent enrolled in a fixed price contract. This compares to 52.7 percent of all Choice and aggregation customers in Dominion's service territory that are served under fixed price contracts.

This percentage seems unusually high given that, system wide, only 52.7 percent of all non-SCO choice customers are on fixed price contracts. However the result is consistent with the data presented in the Staff's review of the Vectren Energy Delivery of Ohio (VEDO) SCO program. In its October 1, 2010 Staff Report in Case No. 07-1285-GA-EXM, the Staff found that 90.8 percent of VEDO's SCO customers that moved to a Choice product with their SCO provider chose a fixed price option. This compared with 14.4 percent of VEDO's non-SCO Choice customers overall that are on fixed price contracts. As stated in the VEDO report, Staff believes this result is not unexpected. SCO customers are, for the most part, customers that have decided not to select an alternative supplier. When solicited by their SCO supplier, it is less likely they would be motivated to trade one variable rate for another variable rate. They may well be motivated however to lock in a fixed rate. Regardless of the explanation, the total number of SCO customers that have moved to a fixed price contract is a miniscule 0.8 percent of all SCO customers. Given the small number, Staff does not believe the data supports a hypothesis that SCO customers are being unduly influenced to switch to fixed price contracts. Furthermore, given the large number of SCO suppliers that do not even offer a fixed price contract, it does not appear that the ability to market fixed price offers to its SCO customers is a primary motivating factor in a marketer's decision to participate in the SCO auction. Staff is not recommending any specific action by the Commission at this time.