

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application to Modify,)	
In Accordance with Section 4929.08,)	
Revised Code, the Exemption Granted)	Case No. 12-2637-GA-EXM
Columbia Gas of Ohio, Inc., in Case No.)	
08-1344-GA-EXM)	

DIRECT PREPARED TESTIMONY OF VINCENT PARISI

ON BEHALF OF

THE OHIO GAS MARKETERS GROUP AND

THE RETAIL ENERGY SUPPLY ASSOCIATION

November 13, 2012

Q1. Please state your full name and address.

A1. My name is Vincent A. Parisi and my work address is 6100 Emerald Parkway, Dublin Ohio 43016.

Q2. Please provide your background and qualifications.

A2. I am the General Counsel and Regulatory Affairs Officer for Interstate Gas Supply, Inc. (“IGS Energy”). I have been employed by IGS Energy since 2003, initially in the capacity of General Counsel and Credit Officer and over time my position evolved into its current role. In this capacity, I am or have been responsible for several aspects of the business, including all legal, regulatory, and legislative activities. I was formerly responsible for credit/risk activities and have also been in charge of compliance items over time, including review of marketing materials, call center scripting and other messages provided by IGS Energy to the public. My role has me either directly or in a supervisory capacity responsible for all such activities in all areas where IGS Energy operates. Prior to being employed by IGS Energy, I was an associate with Chester Willcox & Saxbe, LLP, and worked with many corporate clients on various issues, including working with IGS Energy. I earned my bachelor’s degree from The Ohio State University in economics in 1997, and completed my law degree graduating magna cum laude from Capital University Law School in 2000. I also received my LLM from Capital University in business and tax in 2001.

Q3. On whose behalf are you testifying today?

A3. Today, I am testifying on behalf of Ohio Gas Marketers Group and the Retail Energy Supply Association or jointly “Suppliers”. IGS Energy, the company that I work for, and many of the members of Ohio Gas Marketers Group (OGMG) and the Retail Energy

1 Supply Association (RESA) are certificated by the Commission as competitive retail
2 natural gas suppliers and are actively supplying natural gas to retail customers in the
3 Columbia Gas of Ohio (Columbia) service area. I have personal experience advising my
4 company generally on competitive retail sales to residential, commercial, and industrial
5 customers. Also, I have been intimately involved in the creation and refinements to
6 default service for default customers; specifically, the Standard Service Offer and
7 Standard Choice Offer supply service in several utility territories in Ohio, as well as the
8 Dominion East Ohio service territory Monthly Variable Rate program default supplier.

9 **Q4. What is the purpose of your testimony?**

10 A4. I am presenting the views of the OGMG and RESA Suppliers as to the Joint Motion filed
11 in the matter at bar. Specifically, I will address the state mandate embodied in several of
12 the Sections of 4929.02(A), Revised Code which directs the policy of the state to have
13 retail competitive markets set natural gas price and service terms. I will then present why
14 I think the General Assembly's mandate is particularly well suited for today's natural gas
15 market. Finally, I will describe problems with the present standard choice offer
16 arrangement and describe how the motion and stipulation filed in this proceeding will
17 provide needed additional clarity to the competitive market as to the next phase in
18 development of default service for non-residential customers that have not elected a
19 supplier.

20 **Q5. Will you articulate the policy of the State as described in Section 4929.02(A), Ohio**
21 **Revised Code?**

22 A5. Effective June 26, 2001, roughly 11 ½ years ago, the Ohio General Assembly codified
23 the policy of the state of Ohio as it relates to its position on natural gas competition.

1 Simply stated, Ohio's policy as enunciated in 2001 was to foster an environment in the
2 State to create effective competition, so that regulated natural gas commodity service
3 could be eliminated. This is clearly stated in Section 4929.02(A)(7), Ohio Revised Code,
4 which states it is the Policy of the State to:

5 Promote an expeditious transition to the provision of natural gas services and
6 goods in a manner that achieves effective competition and transactions between
7 willing buyers and willing sellers to reduce or eliminate the need for regulation of
8 natural gas services and goods under Chapters 4905. and 4909. of the Revised
9 Code[.]

10
11 Rewinding to 2001, the competitive programs were in their infancy in Ohio and
12 nationally for residential and small commercial customers. Although traditional
13 transportation programs had been in place for larger commercial and industrial customers
14 for two decades by 2001, programs for residential and small commercial customers in the
15 Columbia service territory and elsewhere in Ohio did not really begin as pilots until 1997
16 or 1998. As such, Ohio Choice programs were in their infancy in 2001 and the State
17 recognized that it would take some time to restructure the markets to ensure effective
18 competition was developed. However, it is clear in the policy that once effective
19 competition was developed in the State, regulated commodity service was to be
20 eliminated in favor of competitive markets. The Ohio legislature saw the wisdom in
21 fostering competition and created policies that would promote competition. The State
22 also understood that it would take some time to unbundle commodity programs, identify
23 inequities in the programs, and revise the programs to ensure that subsidies would not
24 hinder the development of the markets or inhibit consumers electing competitive supply
25 alternatives, creating law to ensure the process progressed.

1 **Q6. Are there other sections in 4929.02 Ohio Revised Code that support your position of**
2 **the policy of the State?**

3 A6. Yes, in fact the entire subsection of 4929.02(A) supports the notion that it is the policy of
4 the state to foster competitive markets. I will address several of the sections below, but
5 some general prefatory comments are also important. Beyond fostering the development
6 of competitive markets, it is also evident that the Legislature intended that consumers at
7 all levels of consumption in the State be proactive participants in selecting their natural
8 gas commodity service, not just that competition should be available to consumers.
9 Eliminating regulated service is the end result once effective competition is developed,
10 although in Ohio we have taken more measured steps toward that final state. The policy
11 of the State, to foster competitive natural gas markets in order to ultimately eliminate
12 regulated service, inherently means that once effective competition exists, consumers will
13 no longer be inactive or passive recipients of the commodity services that are available in
14 the competitive market. The system as it exists today continues to allow consumers to
15 receive commodity service through inactivity, which over the long term is incongruous
16 with effective competitive markets. The Legislature used terms such as “elect” and
17 “selection” in discussing the engagement of consumers in the commodity purchasing
18 decisions, which are words of action, not inactivity. The request before the Commission,
19 to allow the non-residential customers to continue to receive default service through a
20 modified Monthly Variable Rate default structure, is another step along the path of
21 engaging customers in the market, while continuing to make a default option that allows
22 passivity to be available.

Before addressing the specific Revised Code sections, it is important to understand that the requested action in the Stipulation does not eliminate a default service for any customers class, continues to allow all customers that take no action to receive default service, in no way impacts the availability of SCO service to residential customers, and only moves the inactive non-residential default customers to an MVR default service if the Stipulation metrics are achieved. Default service for passive non-residential customers will continue to be made available, just in a slightly different form. In a full exit, customers would be required to engage with the market in order to get commodity service, which is not a request before the Commission. Instead, the Stipulation is a measured approach toward replacing one default service for another, both of which are NYMEX based, both with rules associated with providing the service, and in no way requires non-residential customers to do anything to get commodity service.

Q7. How does this compare to other competitive markets, outside of the energy sector?

A7. Unlike all other competitive markets with which I am familiar, if a seller wants to sell its product or service, or a buyer wants to buy a product or service, both must engage in the market to effectuate a transaction. In any competitive market, no one is compelled to either sell or buy, but if the choice is made to not engage, than the seller registers no sale, or the buyer leaves the market without the product or service for which he or she was shopping. An active participation in the market resulting in a sale and purchase is the only way to satisfy the goals of the respective activity in the market. The buyer has to elect the product, from the seller, that best meets his or her needs and will then have the product or service that was elected. Passivity, inactivity, disengagement, or even ambivalence will lead to no transaction occurring. The Stipulation does not require

1 action on the part of customers, and only if the metric are met does anything change
2 regarding default service, and then only for the non-residential customers. The evolution
3 that would occur at that point is the simple replacement of the SCO default service with
4 the MVR default service for the non-residential customer class, and as is the case today,
5 non-residential customers that take no action will continue to receive commodity service,
6 based upon the NYMEX.

7 **Q8. Does this comport with the Ohio Legislature’s Policy enacted in 4929.02?**

8 A8. Yes, as an additional transitional step. The Ohio Legislature directed action in the Policy,
9 not passivity and disengagement by consumers. This can be seen through an examination
10 of several additional sections in 4929.02(A), Ohio Revised Code, including
11 4929.02(A)(2), (3), (4), (5), (6), (7), (8), (10), and (11). For example, subsection (A)(2)
12 specifically states that it is the State’s policy to promote the availability of unbundled
13 natural gas services so that retail consumers can *elect* the products that meet their
14 respective needs. The intent of promoting the availability of unbundled natural gas
15 services is for customers to engage in the market and make elections of the supplier and
16 products that meet their needs. Inactivity is not an election and therefore, is inconsistent
17 with what the policy goal stated in 4929.02(A)(2) states. That said, allowing a default
18 service to continue in an evolutionary manner is consistent with the Policy, as long as it
19 exists without subsidies and does not interfere with the continued development of the
20 competitive market.

21 Another section in the Policy, subsection (A)(3) discusses “diversity of natural
22 gas supplies and suppliers by giving consumers effective choices over the *selection* of
23 those supplies and suppliers” (emphasis added). As is the case with (A)(2), this language

1 directly indicates that a single supplier or product is not sufficient to meet this policy goal
2 and that an active participation by the consumers of the State in selecting those supplies
3 and suppliers is the intended goal, given the language choice, “selection”. Passivity is
4 not the intent of the policy of the State, otherwise action words such as “elect” and
5 “selection” would not have been used throughout the Section 4929.02, Revised Code.

6 **Q9. So is it your testimony that Columbia should exit the merchant function now, as**
7 **long as the Commission continues to find that the Columbia service territory has**
8 **effective competition available to consumers?**

9 A9. Although I believe that it is the policy of the State that all consumers have available to
10 them effective competitive markets and for all customers to engage and affirmatively
11 choose a natural gas supplier, I am not at this time suggesting the Commission should
12 compel consumers to makes such elections. The Stipulation before the Commission,
13 supported by multiple stakeholders including OGMG and RESA, allows for additional
14 transition regarding default service for the non-residential customer class if and when
15 very specific and significant metrics are reached. At such point, default service, or the
16 do-nothing option, will not be eliminated for the non-residential customer class, but will
17 simply evolve to be a monthly variable rate (MVR) default program. The MVR continues
18 to allow (a) customers to do nothing and receive service, (b) has significant protections
19 related to the service, and (c) in no way changes the availability of SCO default service
20 for residential customers.

21 **Q10. Are there other protections that will be applicable to the MVR program?**

22 A10. Yes. Providers of the MVR product must be a certified retail natural gas supplier
23 (CRNGS) and must offer an MVR product that affords significant protections to MVR

1 customers. Those protections include: (a) allowing no-cancellation fees for MVR
2 products (b) posting all suppliers MVR rates on Public Utilities Commission's Apples to
3 Apples website, (c) permitting periodic disclosures to MVR consumers of a list of all
4 MVR prices so that MVR customers can easily compare MVR products offered in the
5 marketplace, and (d) requiring MVR prices to be based on the monthly New York
6 Mercantile Exchange (NYMEX) settlement each month. Further, if approved by the
7 Commission, under this Stipulation, non-residential customers will continue to be eligible
8 for SCO default rate service until the level of non-residential customers receiving service
9 from a competitive supplier exceeds 70% for a minimum of 3 consecutive months. and
10 even after the migration threshold is achieved, nine additional months still must pass for
11 default customers to move to MVR service to ensure that the then existing SCO period
12 has expired.

13 There are also provisions in the Stipulation to first determine what information the
14 default non-residential customers need to cleanly make the transition to MVR default
15 service, and what education will occur to assist a smooth transition to MVR default
16 service for the non-residential default customers. The additional transition that is
17 included in the Stipulation simply demonstrates that the State is continuing the evolution
18 toward fully competitive markets in measured and methodical steps. As such, the
19 provisions in the Stipulation are reasonable next steps and just like the movement from
20 GCR to SSO then SSO to SCO for default service, moving from SCO to MVR for default
21 service for the non-residential customer class demonstrates an ongoing commitment to
22 competitive markets while maintaining the ability of consumers that do nothing to receive
23 default service.

1 **Q11. Is it important to demonstrate a commitment to the State Policy regarding**
2 **eliminating default service?**

3 A11. Yes it is, because suppliers invest in markets based upon knowledge that there are long
4 term opportunities to provide products and services to the retail customers. For example,
5 IGS Energy serves customers in almost every competitive retail choice market in the
6 country, with a few exceptions. Since 2011, this includes multiple electric competitive
7 markets such as Texas. Retail commodity supply is a relatively low margin business,
8 meaning it takes long term relationships with consumers to make investment in any
9 particular market worthwhile. In markets where the State and regulatory authorities have
10 demonstrated a long term vision and support of competitive markets, Suppliers like IGS
11 Energy will allocate their resources and invest their time, energy, and resources into those
12 markets. Ohio's law clearly embraces and fosters growth of competition for retail
13 consumers, and to date the Commission's actions have furthered that policy. By taking
14 another step, albeit requiring multiple additional milestones to be achieved before that
15 step can be taken, signals to the retail market that Ohio remains open for business. This
16 stability is critical to market investment and is the reason Ohio is IGS Energy's home,
17 with over 400 employees in the State.

18 **Q12. You state that the legislature saw the wisdom of fostering competition so that its**
19 **existence could effectuate the elimination of regulated service, what is your basis for**
20 **this statement?**

21 A12. In the 1970s and 1980s, self-help programs for larger industrial and then larger
22 commercial customers began to develop because, prior to this time and in many instances
23 during this time, various attempts to regulate both the price of commodity as well as

1 access to interstate gas lines created significant commodity scarcity in the market. At
2 several times in the Columbia service territory, schools had to be closed in the winter
3 because there was simply not enough natural gas available. In addition, for a period of
4 time moratoriums were enacted to any new home construction that would include use of
5 natural gas as a heating or cooking source. The Ohio Legislature recognized that the
6 natural gas existed, but it was not being made available because regulated prices simply
7 did not foster an equilibrium between supply and demand. Over time, the wholesale
8 price of gas was allowed to be set by the market, and through several Orders of the
9 Federal Energy Regulatory Commission (FERC), the interstate pipelines were opened to
10 transportation of natural gas by competitive suppliers. As such, by the late 1990s, a
11 vibrant wholesale market had developed as well as retail markets for larger users, and
12 some retail programs were being piloted in Ohio and elsewhere.

13 However, although the unbundling process was beginning in 2001, it would be
14 another decade before many of the major inequities would be identified and addressed,
15 allowing for more equitable competition in the market. Through multiple regulatory
16 events and stakeholder processes, inequities and subsidies were identified and many
17 resolved, putting downward pressure on pricing for all customers. As a result, although
18 not all the subsidies and inequities have been resolved, all customers in the State who
19 reside in service territories which offer retail competition, including default rates derived
20 through competitive paradigms have received lower prices and more efficient prices than
21 would be the case without the existence of retail competition. Stated simply, millions of
22 households in Ohio have saved collectively tens of millions of dollars as a result of
23 competition, benefiting whether or not they have shopped. Market prices are down at all

1 levels, inefficient GCRs have been replaced with more efficient SSO and SCO pricing
2 (although subsidized), only as a result of the existence of competitive retail markets.
3 Without retail competition, we would still have GCRs in Ohio, costing consumers at all
4 levels more for their natural gas.

5 **Q13. You listed several other sections in 4929.02 Ohio Revised Code that support your**
6 **position of the policy of the State, are there others that you would like to discuss?**

7 A13. Yes. At the time the Legislature articulated the State policy supporting development of
8 competitive retail markets to replace regulated commodity service, it recognized that for
9 decades only bundled regulated service was available to consumers. As such, it would
10 take time to unbundle and restructure commodity services although it is unlikely it fully
11 understood at the time what that would entail. As such, several other provisions were
12 included in Chapter 4929 Ohio Revised Code, including provisions directing the
13 Commission to create consumer protection rules to govern how retail suppliers engage
14 and interact with residential and small commercial customers (ORC 4929.22 and Chapter
15 4901:1-29 of the Ohio Administrative Code) and requiring a certification process for any
16 suppliers that wanted to engage residential and small commercial customers (ORC
17 4929.20). Further, several other significant requirements we implemented of both the
18 Commission and the utilities, including:

- 19 1. Flexible regulatory treatment by the Commission (ORC 4929.02(A)(6));
- 20 2. Cost effective and efficient access to information regarding operation of
21 the utility systems (ORC 4929.02(A)(5));
- 22 3. Unbundled services were to be made available for commodity (ORC
23 4929.02(A)(2));

1 4. Identifying and avoiding subsidies flowing to or from competitive services
2 (ORC 4929.02(A)(8));

3 5. A requirement that both the Commission and Consumers' Counsel follow
4 the policies enumerated in ORC 4929.02(A)(2) when exercising respective
5 authorities in the rest of Chapter 4929 (ORC 4929.02(B)) which includes ORC
6 4929.04(A) allowing exemptions for utilities in providing default services.

7 These sections in particular were, and are, critical to the process of identifying and
8 eliminating any subsidies that have existed since 2001 and continue today. These
9 sections also evince the Legislature's awareness that, when starting with a fully bundled
10 utility service, an examination of the services provided and related costs is necessary to
11 ensure that shopping customer are able to take full advantage of the competitive market
12 options without being burdened by unjustified costs or fees. Since 2001 the stakeholders
13 have been working in various forums to identify subsidies and eliminate them whenever
14 possible.

15 **Q14. Have all the subsidies and inequities been identified and eliminated?**

16 A14. No. Although many have been identified and many have been addressed, this has
17 happened only gradually. It has taken over 11 years to identify subsidies and inequities,
18 and to put forth justification for their elimination. There are a number of examples of
19 subsidies or inequities that have ultimately been eliminated, but not before years of those
20 subsidies distorting any possible comparison between regulated default prices and
21 competitive market prices.

22 For instance, until very recently (specifically April 1, 2012) customers that
23 purchased natural gas commodity from the default service, either as a Gas Cost Recovery

1 (GCR) or more recently a Standard Service Offer (SSO), paid a much lower tax rate (the
2 Gross Receipts Tax, GRT) and avoided the Commercial Activity Tax (CAT). Customers
3 that shopped were required to pay the significantly higher Sales Tax and suppliers of
4 competitive services, unlike the utilities, were subjected to the CAT. The lower tax
5 treatment for default service of the same commodity had nothing to do with the
6 effectiveness of the competitive market, but if included in comparisons between
7 competitive products and default service prices would lead to a significantly distorted
8 view of how those prices compared. The Commission recognized this issue in 2011
9 through disposition of the Objections filed in Case No. 08-1344 filed by the Ohio
10 Consumers' Counsel (OCC) and Ohio Partners for Affordable Energy (OPEA) wherein
11 the OCC and OPEA, argued, in part, that the sales/CAT tax inequity should be
12 considered by the Commission in making its comparisons and determination regarding
13 moving from SSO default service to SCO default service. (Case No. 08-1344-GA-EXM).
14 In that case, the OCC and OPEA argued against moving from the SSO to the SCO
15 service, citing to a report that claimed significant losses for consumers in the Columbia
16 service territory as a result of choice participation. It was established in that case that the
17 post-tax basis comparison was of no value, since the legislature not the Commission
18 establishes tax policy. The Commission in its Entry approving movement to the SCO, as
19 provided for in the 2009 Stipulation found that it was inappropriate to make any
20 comparison on a post-tax basis, and that it was a misrepresentation of the issues before
21 the Commission to use post-tax analysis as basis for action or inaction regarding
22 movement from SSO to SCO default service. The simple fact is that for a decade prior to
23 this 2011 proceeding the tax inequity was recognized, but OGMG and the Commission

1 both recognized that tax policy is set by the Ohio Legislature, not the stakeholders in
2 unbundling proceedings, and as such, should not be the basis for deciding issues related
3 to market evolution.

4 There are other examples where over time the competitive market or shopping
5 customers subsidized default service. Eventually, many of the subsidies were eliminated,
6 but not before the subsidies and inequities had already been imbedded in comparisons
7 that were made between default service prices and market prices, rendering such
8 comparisons meaningless. Although I will not get into all of the specifics, other such
9 issues included:

10 (1) balancing fee issues up to \$0.48 per Mcf for no comparable assets or services;

11 (2) purchase of receivables discounts;

12 (3) transfer of 20 year historical gas to default customers as a precedent to the
13 transition to SSO default service;

14 (4) base rate inclusion of commodity related items such as working capital costs
15 for gas in storage;

16 (5) switching fees, billing fees, and generally asset releases.

17 To be clear, none of this recitation is intended to be critical of either the Commission or
18 Columbia. To the contrary, over the past 11 years or so the stakeholders, including
19 Columbia and the Commission staff, worked diligently to identify these inequities and to
20 find ways to resolve the issues. Both the Commission staff and Columbia should be
21 commended for their willingness to help identify these issues and resolve them. The
22 purpose of pointing this out is to point out that in 2001, although it was (and is) the policy
23 of the state to foster and develop competition, it took legislative wisdom to recognize that

1 subsidies and inequities existing in the bundled service would need to be identified and
2 eliminated for competition to truly work for consumers in the State. By identifying the
3 issues above, solutions were created to ensure that for those issues the shopping
4 customers were neither subsidizing nor being subsidized by default service (the
5 requirement under Section 4929.02(A)(8), Revised Code).

6 A bit more detail on a few of the issues will help to illustrate the extent of the
7 items, for instance a balancing fee of \$0.48 per Mcf was charged for years where little or
8 no services were provided for that fee (resolved primarily in 2008-2009 through release
9 of assets by the utility and provision of balancing and peaking services for a reduced fee
10 of \$0.32 per Mcf). Stranded costs were resolved by recognizing that Columbia could
11 continue to contract for essentially 100% of a peak day for all choice eligible customers,
12 then release on a recallable basis those assets to the suppliers that were serving customers
13 (retaining what they needed to provide non-temperature balancing service and eventually
14 peaking services with those retained assets), so that competitive suppliers were not
15 paying for assets and services they were not receiving and then being required (in order
16 to provide firm service to firm customers) to go out into the market and find assets to
17 serve those customers. One of the provisions in the Stipulation allows Columbia to
18 continue to contract for the capacity needs of the choice eligible pool, which allows
19 Columbia to continue to provide the balancing and peaking services, and release the
20 needed assets to the choice and SCO suppliers to enable the suppliers to deliver natural
21 gas to the system. Allowing this structure ensures that the assets needed to serve
22 customers are available for existing suppliers as well as new entrants, and ensures that the
23 issue was resolved where shopping customers had been paying twice for the same assets

1 and services. The solution took almost a decade to be fully implemented, but today
2 Columbia retains the contract rights and releases the contracts on a recallable basis so that
3 suppliers can use those assets to serve customers thus eliminating the substantial inequity
4 and stranded cost concerns that existed before this solution. Also, since Columbia
5 continues to contract for the assets and can recall them in the event of a default by a
6 supplier, the system as a whole remains reliable.

7 Although many subsidies and inequities have been identified and resolved, other
8 subsidies and inequities continue to exist, so default service, even through the
9 competitively bid SCO, remains a subsidized service.

10 **Q15. Do you have examples of the ongoing inequities and subsidies you allude to in your**
11 **previous response?**

12 A15. Yes, although there are several, the following come to mind. First, shopping customers
13 have nothing to do with the default commodity service, yet embedded either in base rates
14 or paid for through the CSRR are costs that are really only attributable to the default SCO
15 service. For example, the costs associated with the annual SCO auctions are paid for by
16 all customers through the CSRR and base rates, not just those taking SCO service. Since
17 only SCO default customers take SCO default service, all the costs of the auction,
18 including the preparatory costs, the regulatory costs, and internal costs at the utility
19 should be paid for by those taking that default service.

20 Another example is programming costs to continue to provide a default service,
21 wherein customers are provided commodity service without electing a supplier and
22 enrolling through the enrollment protocols. Educational programs are another example,
23 whether it is education regarding default service or even education regarding available

1 choice alternatives. Customers who have shopped already have demonstrated an ability to
2 elect competitive suppliers and products that meet their needs; and, as such, do not need
3 the educational materials they may have received when on default service. Going
4 forward, customers on default service are the customers that benefit from education
5 regarding both default service and the market and should therefore be responsible for
6 those costs.

7 Another example is the costs that could occur in the event of a default of an SCO
8 supplier. Although there is currently a cross-collateral provision to protect non-
9 defaulting SCO suppliers, and Columbia can and does require a credit review of all
10 CRNG and SCO suppliers in order to participate in the SCO auction, nonetheless if a
11 default occurs there are costs and expenses that Columbia will incur in the short term that
12 will not be covered by the cross-collateral and likely not covered by the Columbia credit
13 review. Since it is just the integrity of the default SCO and SCO price that is being
14 protected, only those providing this service or those receiving this service should be
15 responsible for the risk/cost. Currently it is either an uncovered risk, or the risk will be
16 borne by the entire customer base through the CSRR or base rates.

17 As a transitional stage, the SSO's and now the SCO's avoidance of many of the
18 costs of service by putting those costs into the CSRR or otherwise having Columbia
19 provide the services (such as a call center to answer question regarding the SCO service)
20 can be manageable subsidies (although not optimal) as long as the parties recognize those
21 inequities exist and are only transitional in nature. If, however, the SCO is going to
22 remain as a default service for customers for the foreseeable future, it is imperative that it
23 not be subsidized.

1 **Q16. Is there anything in the Stipulation that will address the subsidy and inequity**
2 **issues?**

3 A16. Yes, it was recognized by the stakeholders that issues exist, and the parties that entered
4 into the Stipulation have agreed that requiring the SCO suppliers to pay a \$.10 per Mcf
5 fee on the anticipated load won in the auction in advance of providing the service would
6 provide sufficient collateral to cover the possible costs/expenses resulting from an SCO
7 supplier default. In addition to the risk of supplier default, the Parties also determined that
8 additional education is desirable to inform the non-residential customers in default
9 service, of the next steps related to default service if the metrics are achieved, specifically
10 the movement from the SCO to the MVR, as well as gathering some information from
11 consumers regarding the type of information they would need to make the transition from
12 SCO default service to MVR default service smooth. All of these expenses are only
13 relevant to the default service class, since the information regarding such transition and
14 information gathered will benefit the default service customers. Additionally, because the
15 SCO providers benefit from continued access to significant retail customer load without
16 having to in any way engage in the retail market or comply with any of the administrative
17 rules in serving retail customers, it is either appropriate to (a) directly assess the default
18 customers the costs associated with the education, surveys, and other IT programming
19 needed to ensure continued default service, or (b) retain the \$.10 per Mcf SCO supplier
20 fee not utilized by a Columbia in the event of a default and pass it back through the
21 CSRR, the mechanism that was identified as the vehicle to recover the costs for any
22 defaults, education, IT programming, and other costs.

23 **Q17. Do you believe the \$.10 fee is sufficient to cover all of these default costs?**

1 A17. No, I think the amount of the above costs and other subsidies as well as avoided costs that
2 are part of the default service are significantly greater than the \$0.10 SCO supplier fee.
3 However, the resulting \$0.10 SCO supplier fee is a reasonable compromise resulting
4 from the serious and well thought out bargaining that occurred by the parties signing the
5 Stipulation, and as such OGMG and RESA support the fee and the disposition of the fee.
6 If the issues were fully litigated, the time, energy, and resources spent would be
7 significant and for purposes of this Stipulation, the result was reasonable in consideration
8 of those items.

9 **Q18. Is IGS Energy an SCO supplier currently on the Columbia system?**

10 A18. Yes, IGS is an SCO supplier to Columbia. Further we have been a winning supplier in
11 virtually all the auctions that have occurred in Dominion and Vectren since the inception.
12 By being both an SCO supplier and a Choice Supplier we are in a good position to assess
13 the relative cross subsidy that shopping Choice customers are paying now for the Choice
14 eligible customers who do not shop.

15 **Q19. Does IGS Energy support paying the fee as well as the disposition of the fee?**

16 A19. Yes, as a winning SCO supplier, IGS recognizes that it receives a significant number of
17 customers through the auction in a single event, and that as an SCO supplier are relieved
18 from identifying, enrolling, verifying, document retention, notices, and other rules
19 covering Choice customers embedded in Chapter 4901:1-29 of the Ohio Administrative
20 Code. In the SCO context, the local distribution utility picks up these costs for SCO
21 suppliers which are paid for by all customers via base rates. As such, it is appropriate
22 for SCO suppliers like IGS as part of their bid to cover the costs to ensure against
23 potential default as an SCO supplier, as well as to contribute to the costs for default

1 customers that are otherwise avoided by the SCO supplier (like educational and
2 administrative costs) due to the nature of default service. No supplier is required to bid in
3 the auction, and certainly any supplier could make the election not to bid, or to include or
4 not include the dime in its bid price. Also, any customer who feels the default service
5 cost is higher as a result can certainly avoid it by simply electing a competitive supplier
6 and product. The alternative, directly assessing the costs on the SCO default customers is
7 an option, but currently there is not a mechanism to accomplish this. As such, the result
8 in the stipulation balances the interests and is a reasonable result.

9 **Q20. Are there other benefits of the competitive market?**

10 A20. Yes, one final point. Customers in Ohio's largest utility service territories that have had
11 choice available have saved millions of dollars because of the existence of the retail
12 competitive market. Competitive markets have provided ample natural gas at all demand
13 levels, where under a GCR, there was significant scarcity. Retail competition has created
14 a downward pressure on prices, from which all customers have benefited. Because of the
15 existence of retail competition and a desire of the market to serve all customers, the
16 inefficient GCR mechanism has been all but eliminated in most of the major utilities in
17 favor of competitively bid SSO and SCO rates. Although subsidies continue to exist, the
18 SSO and SCO would not exist but-for the retail competition that exists in this state. In
19 the 2008 phase of Case No. 08-1344-GA-EXM, the staff report suggested approval of the
20 first SSO auction and demonstrated that the GCR converted to a NYMEX plus price
21 would have equaled approximately NYMEX plus \$2.87 to \$3.06. The prices in the
22 market from retail suppliers have always beaten that rate, although many of the prices
23 were fixed price products that may or may not have done better as the market moved up

1 and down over time. It is, however, indisputable that without retail competition
2 consumers would still be paying GCR prices, which are inherently inefficient and likely
3 substantially higher than the prices all customers have available to them in the market
4 today.

5 **Q21. Please summarize your advice to the Commission.**

6 A21. Section 4929.02(A), Revised Code requires the Commission to promote the transition
7 from regulated prices and service terms to market based prices and service terms. The
8 Joint Application is requesting a measured approach to continue the evolution of the
9 competitive market, one that if approved would allow retail suppliers to understand the
10 benchmarks that must be obtained to transition non-residential customers to an MVR
11 default service, and allow for a benchmark that if achieved would allow the parties to
12 approach the commission and request additional transition for the residential customer
13 class. Approval of the 10 cent supplier charge simply begins a process of avoiding the
14 historical cross-subsidization and inequities that have persisted to date.

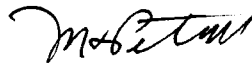
15 **Q21. Does that complete your testimony?**

16 A21. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing document has been served on the following persons below via electronic mail this 13th day of November, 2012.

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Summary: Testimony Direct Prepared Testimony of Vincent Parisi electronically filed by M
HOWARD PETRICOFF on behalf of Ohio Gas Marketers Group and Retail Energy Supply
Association