

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission's)	
Investigation of Ohio's Retail Electric)	Case No. 12-3151-EL-COI
Service Market)	

COMMENTS OF INTERSTATE GAS SUPPLY, INC

In accordance with the Commission's Entry of January 24, 2013, Interstate Gas Supply, Inc. ("IGS") submits these Initial Comments in response to questions posed in the December 12, 2012 Entry that initiated this proceeding. IGS's comments address the Commission's questions in the order presented in the December 12, 2012 Entry.

As the Commission is aware from numerous prior proceedings, IGS is a certified competitive retail electric service ("CRES") provider serving customers in the FirstEnergy, AEP, Duke and Dayton Power & Light service territories. IGS also provides electric and natural gas service to over 1 million customers in 11 states and in over 30 utility programs throughout the United States. IGS has approximately 400 employees working at its headquarters in Dublin, Ohio.

MARKET DESIGN

(a) Does the existing retail electric service market design present barriers that prevent customers from obtaining, and suppliers from offering, benefits of a fully functional competitive retail electric service market?

The existing market design presents several barriers that prevent customers from obtaining, and suppliers from offering, benefits of a fully functioning competitive retail electric market. The following barriers in particular stand out:

1. **Default service masks the true cost of providing retail service.** Default service is an impediment to fully developed retail markets (keeping customers from receiving and suppliers from offering the full benefits) because it avoids many of the costs of providing retail generation service. For instance, customers that want a competitive product must go through a verification process; default service customers do not. Customers that want to purchase competitive commodity must find a supplier; default service customers do not. And competitive suppliers that want to serve retail customers must seek, secure and maintain certification and comply with all of the marketing, verification, documentation, and related rules. Default service providers face no such requirements. As such, although default service is touted as a “price to compare” to all other competitive products in the market, default service is not burdened with the same costs and obligations as competitive products.
2. **Default service rates are heavily subsidized.** Many of the costs of providing generation service continue to be embedded in base rates, paid for by all base rate paying customers in the same rate class, including those ratepayers who have elected to purchase commodity from a certified competitive supplier. These costs include the regulatory, legal, IT, operational, and administrative costs of designing, presenting, structuring, defending, implementing, and reconciling the default rate and default rate process. Just as one example, the electric utilities that procure their default service via wholesale competitive bidding processes (“CBP”) pay CBP suppliers for their electricity upon delivery into the utility system, at which point electric utilities assumes fully collection responsibility on customer’s accounts. Thus wholesale suppliers serving the SSO load do not need to build collection cost (e.g. collections personnel, IT, infrastructure) into their pricing when bidding to serve the SSO retail load. However, CRES suppliers offering products into the market without a POR are required to do just that. CRES supplier pricing, which is often being compared to the SSO rate, will look less favorable, because there will be additional costs that are not reflected in the SSO rate.
3. **The lack of purchase of receivables (POR) programs and customer account numbers inhibits competition.** Three of the 4 electric distribution utilities (EDUs) do not have a purchase of receivables program, yet the costs associated with managing the accounts receivable and slow paying and non-paying customers, disconnections, and related items continue to be recovered through base rates or uncollectible expense riders. POR programs are an important part of competitive market development if the full costs associated with managing the receivables are not fully and completely unbundled from base rates. Otherwise, default service continues to be subsidized by shopping customers, creating inequities in the market and limiting the ability of customers to take full advantage of competitive markets, and limiting offerings from suppliers. Further, there continues to be barriers to

enroll customers, including not granting CRES suppliers customer account numbers, which makes it difficult to enroll customers, anywhere but the customer's home.

(a cont.) To the extent barriers exist, do they vary by customer class?

In IGS's experience, residential and small commercial customers tend to be more negatively impacted by the inequities and barriers described above because these customers are often led to believe that the "price to compare" is all that matters. Larger customers are often more sophisticated and not focused on a single price comparison. Also, in many instances the inequities and barriers explained above are relevant only to the residential and small commercial customer classes that are Choice eligible, given rate structures as well as the applicability of administrative rules to residential and small commercial customers only.

(b) Does default service provide an unfair advantage to the incumbent provider and/or its generation affiliate(s)?

Default service providers enjoy numerous advantages over CRES suppliers. As explained above, default service is positioned as a "competitive alternative," yet even in service territories where the default price is established through auctions, these auction prices do not reflect all of the costs and requirements associated with providing a retail product to consumers. As explained above, default providers are able to avoid the administrative, technical and legal requirements imposed on CRES providers. Additionally, the very nature of "default" service is such that customers who take no affirmative action are automatically served by the incumbent provider. Simply handing customers to a particular class of suppliers is an inherent subsidy to that class of suppliers. Further, it is harmful to developing a competitive market, whereby default a larger percentage of customers are simply assigned to one class of suppliers.

(c) Should default service continue in its current form?

The structural inequities inherent in the wholesale auction paradigm should be changed in order to bring parity between default service providers and CRES providers. To remedy this, those suppliers benefiting from serving the default load should be required to pay for that benefit and not inappropriately avoid the investment otherwise incurred by participation in a fully competitive market. Without addressing the inherent inequities, default service should be limited to only Choice customers ineligible to shop (e.g. PIPP customers) and all eligible customers should be required to engage in the market. A program could be established to assure service to those customers who simply refuse to engage, but if that service is described as a "price to compare" then it needs to have all the attributes and associated costs of a retail competitive product, or the same barriers that exist today will continue. As such there are several alternatives:

1. Maintain the current market structure, but enhance this structure through collection of a fee assessed to wholesale auction suppliers to ensure that the product imparted upon default customers shares all the attributes of retail competitive products. The revenue collected through the fee should be passed back to all customers, both shopping and non-shopping;
2. Eliminate default service for all but Choice ineligible customers. Allow for a period of time for customers to be informed that they will need to select a supplier. Those eligible customers that do not select a supplier by a date certain will be assigned, proportional to market share, to competitive suppliers willing to serve assigned customers on a generally available monthly variable rate, without cancellation fee, posted on the commission's apples-to-apples website. Customers that move within or into the service territory will also need to select a supplier to initiate service, or if they do not, will be assigned through the proportional allocation methodology to an eligible CRES; or
3. Continue to allow customers to not engage in the market and receive default service, but allow eligible CRES providers to serve those default customers *in a direct retail relationship*, initially at the transition price but ultimately at the CRES provider's monthly variable rate. The rough mechanics of this method would be as follows: first, establish a one or two year transition period where a default rate is administratively set (for example, by using an average of the last two years' default service prices). Default customers would be divided into 5 or 10 percent tranches and financially, technically, and managerially qualify CRES providers for a predetermined number of tranches (from zero to 100%). Once qualified, willing CRES providers would serve default customers at the transition rate for the transition period. Customers that have not selected a competitive supplier/product by the end of the transition period would simply remain with the assigned competitive supplier on a monthly variable rate thereafter (until such time as they do select a supplier or product). If interest in serving default customers in the transition period is greater than the number of customers to be served (meaning the qualified customer tranches exceed the number of total customers in the tranches to be served) then an ascending clock auction could be conducted wherein eligible CRES providers bid in rounds how much they would be willing to pay in order to win the right to serve the customer. Funds received through the process would be dedicated to eliminating any deferrals related to capacity costs or other legacy costs associated with default service.

(d) Does Ohio's current default service model impede competition, raise barriers, or otherwise prevent customers from choosing electricity products and services tailored to their individual needs?

Yes, moving to wholesale auctions eliminates some of the barriers that exist related the lack of transparency implicit in a reconciled fully regulated product, but spotlights others. As we move toward wholesale competitively bid auctions to procure default service, which we appear to be doing in Ohio, it will be critical that default service not include reconciliations and that the full costs of competing in a retail market are not avoided by

the suppliers benefiting from providing that service. This causes CRES providers to focus on the price to compare in their marketing and direct solicitation efforts, which in turn leads to the design of products and services that are narrowly-focused on the price to compare. Conversely, in a fully competitive market without an artificially established price to compare, consumers are empowered to demand products and services that are more innovative, competitive, or otherwise more attractive than existing products and services. Additionally, in a fully competitive market, acquisition costs are reduced because a significant base of default customers would become engaged consumers. Overall, customer satisfaction with the market would increase since engaged shoppers will drive the market to provide products and services that meet their needs.

(e) Should Ohio continue a hybrid model that includes an ESP and MRO option?

The “hybrid” model should be thoroughly overhauled to eliminate the inequitable subsidies and avoidances that are currently embedded in the ESP and MRO default service options.

(f) How can Ohio's electric default service model be improved to remove barriers to achieve a properly functioning and robust competitive retail electric service electricity market?

Under an alternative market structure IGS describes in the answer to question (c), an assigned CRES provider should serve default customers at their monthly variable rate until the customer affirmatively chooses another CRES provider. Monthly variable rates would be determined by the CRES provider and posted on the Commission’s Apples-to-Apples website and made generally available to all customers, without any cancellation fees. If a transition period is needed, an administrative fixed price could be developed, based on an average of the last 2 years’ posted price to compare, and assign default customers to eligible CRES providers (see response 3 to question (c), above). If the Commission is unwilling to adopt this structure, alternatively, a fee should be assessed to default service providers that represents full value of the actual and avoided costs of providing retail generation service such as avoided marketing, acquisition, verification and compliance costs. Such a charge should be refunded to all customers, both shopping and non-shopping.

(g) Are there additional market design changes that should be implemented to eliminate any status quo bias benefit for default service?

The status quo bias of customers to remain with the default service poses a serious problem for the long term development of competitive markets. In a market where similar products and services are provided without the requirement of engagement, many consumers will not engage regardless of what the market offers, or the means by which the offers are made. The fact that default service is subsidized exacerbates customer’s incentives to not engage in the market. These market aberrations that lead to customer disengagement deprive the market of indications of customer’s true preferences. The result is a market structure that is dictated by the top down

preferences of regulators, instead of competitive market forces driven by customer preferences, innovation, exploration, engagement, and better products with more informed consumers.

As alluded to in IGS' previous answers, requiring all customers (including default service customers) to choose a supplier would solve this problem. Consumers that do not make an affirmative selection would be assigned to a CRES supplier at the CRES suppliers' generally available monthly variable rate, instead of simply defaulting to EDU service. This approach would allow the market to ascertain the true preferences of customers which is necessary for CRES providers to develop products to suit customer's needs. If requiring customers to make a choice is not an option, wholesale auction suppliers should be assessed a fee meant to represent the costs to default providers to adhere to the same standards as CRES providers in terms of solicitation enrollment, and verifications.

(h) What modifications are needed to the existing default service model to remove any inherent procurement (or other cost) advantages for the utility?

Default service avoids many costs of providing competitive service, although costs are imposed on the competitive market to provide the same customers the same service. See responses to (a) through (c), above.

(i) What changes can the Commission implement on its own under the existing default service model to improve the current state of retail electric service competition in Ohio?

The Commission should review all aspects of default service and base rates to ensure that all elements of providing default service are properly included in the default generation rates. If a full unbundling process is not desired, processes should be initiated to determine an administrative fee, assessed to default service providers equal to the costs that would be removed from base rates and included in the default rate. The Commission should also determine the costs to meet the regulatory requirements of providing retail competitive service to residential and small commercial consumers covered by the CRES administrative rules and assign a comparable cost to the default service providers. Revenue received from these fees should be provided back to consumers by offsetting any deferred capacity costs or other legacy default service costs or could be returned to customers through a reduction in distribution rates.

(j) What legislative changes, if any, including changes to the current default service model, are necessary to better support a fully workable and competitive retail electric service market?

IGS has no initial comments on this question, but reserves the right to submit reply comments.

(k) What potential barriers, if any, are being created by the implementation of a provider's smart meter plans? Should CRES suppliers be permitted to deploy smart meters to customers? Should the Commission consider standardizing installations to promote data availability and access?

Although socializing the costs associated with deployment of smart meters may have some greater value, the solution for implementation and deployment does not need to be only the EDU. Competitive markets should be able to participate in the process, and if solutions provided by the competitive market are more cost effective, deployment should be permitted through competitive market solutions. In any event, all information obtained through the use of smart meters must be provided to competitive suppliers in an unbiased, competitively neutral manner

(i) Should the Commission consider standardized billing for electric utilities?

Although standardized billing is not critical, purchases of receivables programs as well as more dynamic billing capabilities are critical to competitive suppliers providing the highest advantages to consumers.

(j) Do third party providers of energy efficiency products, renewables, demand response or other alternative energy products have adequate market access? If not, how could this be enhanced?

Current market access is inadequate. Key elements of market access include data and billing. In order to assure adequate market access, third party suppliers such as those referred to above should have adequate access to ratepayer consumption data from which products and services can be designed. Additionally, charges associated with provision of those services should be includable on the utility bill, but not be the basis of disconnection activity in the event of non-payment.

(k) Does an electric utility have an obligation to control the size and shape of its native load so as to improve energy prices and reduce capacity costs?

IGS is not taking a position at this time on what legal obligation, if any, an electric utility has to control the size and shape of its native load. As a matter of regulatory policy, the size and shape of native load within the footprint of an EDU should be determined by competitive markets.

CORPORATE SEPARATION

(a) Whether an electric utility should be required to disclose to the Commission any information regarding the utility's analysis or the internal decision matrix involving plant retirements, capacity auction, and transmission projects, including correspondence and meetings among affiliates and their representatives?

EDUs should not provide any competitive advantages to subsidiary companies, which includes access to capacity, generation facilities, load information, or any other information that is not also provided to competitive suppliers equally.

(b) Should a utility's transmission affiliate be precluded from participating in the projects intended to alleviate the constraint or should competitive bidding be required?

IGS has no initial comments on this question, but reserves the right to submit reply comments.

(c) How long should a utility be permitted to retain their injection rights?

IGS has no initial comments on this question, but reserves the right to submit reply comments.

(d) As fully separate entities, does a utility's distribution affiliate have a duty to oppose the incentive rate of return at FERC?

No, if the affiliate is truly separate from the distribution utility, it should be permitted to make decisions based upon its own evaluation of the market, which may or may not include spending the time, resources, and funds on pursuing FERC initiatives.

(e) Is there a potential for consumers to be misled by a utility's corporate separation structure?

Potentially, if the disclosures that are used by an affiliated company providing competitive services are not sufficient to make it clear to consumers that no advantages will be provided by the affiliate due to the affiliated nature of the company.

(f) Are shared services within a 'structural separation' configuration causing market manipulation and undue preference?

Potentially. Shared services are potentially very damaging to competitive market development, if the costs attributable to the services are only incremental, and if the services shared also provide access to information (either by the affiliated company or EDU) that would not otherwise be available to other competitive suppliers. For instance, if a call center is a shared service and the affiliated company is only being

assessed costs associated with actual usage, then the affiliate is avoiding the costs for capital investment, peaking services, down time, and other associated costs that would exist if they had a call center fully paid for and funded by the affiliate company.

(g) Should generation and competitive suppliers be required to completely divest from transmission and distribution entities, maintain their own shareholders and, therefore, operate completely separate from an affiliate structure?

Absolutely.

(h) Are there PJM tariffs or FERC rules that would mitigate market power and/or facilitate retail electric service competition?

IGS has no initial comments on this question, but reserves the right to submit reply comments.

Respectfully submitted,



M. Howard Petricoff
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street
Columbus, OH 43215
614-464-5414
mhpetricoff@vorys.com

Attorney for Interstate Gas Supply, Inc.

CERTIFICATE OF SERVICE

I certify that a true and accurate copy of the foregoing document was served by electronic mail this 1st day of March, 2013 upon the persons listed below.



M. Howard Petricoff

grady@occ.state.oh.us
serio@occ.state.oh.us
fdarr@mwncmh.com
sam@mwncmh.com
dboehm@BKLawfirm.com
mkurtz@BKLawfirm.com
cmooney@ohiopartners.org
drinebolt@ohiopartners.org
msmalz@ohiopovertylaw.org
jmaskovyak@ohiopovertylaw.org
gkrassen@bricker.com
william.wright@puc.state.oh.us
burkj@firstenergycorp.com
stnourse@aep.com
judi.sobecki@dplinc.com
amy.spiller@duke-energy.com
elizabeth.stevens@puc.state.oh.us
Cynthia.Brady@Constellation.com
David.Fein@Constellation.com
mjsatterwhite@aep.com
yalami@aep.com
cgoodman@energymarketers.com
srantala@energymarketers.com

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Summary: Comments Comments electronically filed by M HOWARD PETRICOFF on behalf of Interstate Gas Supply, Inc.