

**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)	

REPLY COMMENTS OF INTERSTATE GAS SUPPLY, INC

I. INTRODUCTION

In accordance with the Commission's Entry of January 24, 2013, Interstate Gas Supply, Inc. ("IGS") submits these Reply Comments in response to comments filed by other parties in this proceeding.

IGS is encouraged that most, if not all, of the Comments submitted in this proceeding are generally supportive of retail electric competition. In the not too distant past some parties (including parties submitting comments in this proceeding) argued that traditionally regulated utility monopolies, with regulated retail pricing, were the only way to ensure reliable, safe and reasonably priced electric service. As evidenced by the lack of demand to return to traditional utility regulation, there now appears to be a consensus that electric competition can, and does, bring numerous benefits to customers and to the State of Ohio.

Many of those who doubted the benefit of competitive electric markets in the past, now argue that it is necessary to subsidize and protect the current default rate structure because customers are incapable of making rational choices to protect their own

interests. However, maintaining the current default rate structure *harms* customer's interests because it incentivizes customers not to engage in the marketplace and to remain uninformed about the products that are available to them. Engaged and educated customers are the most protected customers because they are more able to make knowledgeable decisions about the products and services that best suit their preferences. Further, an engaged and educated customer drives innovation by making their preferences known in the marketplace, forcing suppliers to adapt their product offerings to increasingly sophisticated buyers.

Conceptually, we all understand that competition produces efficient pricing, encourages innovation, and is the market structure that is most beneficial to customers. This is why, for every other retail product and service (e.g. insurance, banking, food etc.), customers are required to actively choose a service provider. In fact, other traditionally regulated industries, including telecommunication and airlines have moved away from the regulated models, and do not maintain a default service, because as a society, we recognize the benefit that full competition brings to customers.

In the Initial Comments submitted in this proceeding, some of the parties argue that transitioning to a default service that is procured by a wholesale auction is all that is needed to have fully competitive markets in accordance with the policy of the State of Ohio. However, the current state of the competition should not be the desired end-state for Ohio electric markets. Assignment of customers to a default product is an inherent aberration in a marketplace. Other retail products and services do not maintain a default service, because in all other markets, it is an accepted axiom that default service distorts pricing, discourages innovation, and harms customers in the long run. This is

why, while Ohio has made great strides by adopting a certain level of competition in the electric markets, the transition to *fully* competitive markets must continue, including taking measures to correct the distortions, aberrations and inefficiencies caused by default service.

II. REPLY COMMENTS

A. Default Service Does Not Enhance Competition

Some parties argue, including the Office of the Ohio Consumer's Counsel ("OCC"), that a default service enhances competition by offering an additional choice in the marketplace.¹ However, default service does not result in more choices in the marketplace, because default service is often not a choice made by customers; rather, it is a product that customers are assigned to without an affirmative choice. In the Ohio electric markets, in order to receive electric service, customers must contact the electric distribution utility, and those customers are automatically placed on the utility's default service. Further, customers must remain on default service for a period of time, before having an opportunity to choose a competitive supplier, and customers will remain on default service unless an affirmative choice to receive competitive supply is made. Also, utility customers who initiated service before electric markets were restructured remain on the default service unless they affirmatively choose a competitive supplier. Thus many customers are being served on utility default service without having made the affirmative choice to be there.

¹ OCC Initial Comments at 11.

Status quo bias causes default service customers to remain on default service, even when there are alternative products that are better priced, or are better suited for the customer's preferences. Further, the existence of default service exacerbates customer's status quo bias. This is because when customers don't engage in the market, they are less likely to be educated about the products in the marketplace, and thus less inclined to make a choice in the future. Additionally, because a large portion of customers remain on default service, regardless of the choices offered by other suppliers, suppliers simply do not offer certain products that otherwise would exist in a fully competitive market. Therefore, rather than adding a choice to the market, default service is a mechanism that restricts the choices and products offered to customers.

B. Procuring Default Service Via Wholesale Auction Should not Be the End-State for Competition in the Ohio Electric Markets

Some parties filed comments suggesting that having the ability to choose a retail supplier, coupled with a default service that is supplied by wholesale auctions, is the desired end-state for Ohio's transition to competitive markets.² As already noted, the end-state of fully competitive electric markets cannot be realized simply by transitioning to default service procured by wholesale auctions, without fixing the inherent subsidies and inefficiencies that arise from assigning customers to a default supplier. These subsidies and inefficiencies include 1) requiring competitive supplied products to bear the costs of complying with the numerous regulatory requirements, while largely freeing the suppliers of the default service from these costs; 2) assigning customers to default service product at zero cost to the suppliers providing the product, while competitive

² FirstEnergy Initial Comments at 9-10.

suppliers must incur significant costs to attract and retain customers; and 3) utilizing the electric utility distribution base rates to recover costs that are incurred solely for the purposes of providing default service.

The favoring of one particular product in the marketplace (default service) over other products (competitive products) poses a significant risk to consumers, because it hinders the ability to fully develop competitive supply products available to customers. The full benefits of competition will not be realized by Ohio consumers while subsidies and inequities to the default service still exist; in fact, the State of Ohio runs the risk of retrenchment of the gains that have been achieved from the competitive market if measures are not taken to correct the distortions in the market caused by default service.

In its initial comments IGS proposed a number of solutions to help correct some of the market distortions caused by default services. These remedies include 1) assessing a fee to default service providers, which will be given to all customers, to ensure that default service providers are paying their fair share of costs to participate in the competitive marketplace; 2) eliminate default service and transition all default service Choice eligible customers to no cancellation fee market variable offers served by competitive suppliers; or 3) conduct a retail auction that would allow CRES suppliers to bid to serve default service customers at no cancellation fee market variable rate published at the PUCO apples-to-apples website.³ The Commission should strongly consider one of IGS' proposed measures to ensure the transition to competitive markets in Ohio moves forward.

³ See IGS Initial Comments at 4 for more detail on these proposals.

C. Measures Must be Taken to Correct the Distortions Caused by Default Service in the Market Place

The common denominator for all of the market enhancement proposals made by parties in this proceeding are that they are largely an attempt to correct the market distortions caused by default service. As long as default service exists, the Commission on some level will have to address the issue of subsidies and inefficiencies that result from default service in a competitive market. Absent eliminating default service, and requiring all customers to choose a competitive supplier, there is no one silver bullet approach to correct market aberrations caused by default service, and therefore multiple tracts should be taken.

In its initial comments Dominion Retail proposed a number of positive changes that could enhance the competitive markets and allow CRES suppliers to offer more vibrant product offerings to customers. Those include 1) making default service an option in service; 2) eliminating all mandatory stay provisions and utility switching fees; and 3) granting CRES suppliers access to customer account numbers.⁴ All of these changes proposed by Dominion Retail would enhance competitive dynamics in the marketplace and ultimately benefit Ohio customers.

Some parties, including IGS have also proposed requiring electric utilities to offer a purchase of receivables program (“POR”) to competitive suppliers.⁵ Other jurisdictions and commodity markets with POR programs have clearly seen that these programs encourage competition and offer benefits to the market and customers alike.

⁴ Dominion Retail Initial Comments at 8-11.

⁵ RESA Initial Comments at 23; IGS Initial Comments at 2; Dominion Retail Initial Comments at 11; Duke Retail Initial Comments at 3.

IGS also supports the Ohio Power Company (“AEP Ohio”) recommendation that the Commission implement a non-bypassable bad debt rider to cover the uncollectible revenue for both shopping and non-shopping customers.⁶ Implicit in AEP’s request for a non-bypassable bad debt rider for all customers is that a POR program should be available for CRES suppliers. Consequently, the Commission should adopt AEP’s proposal and order a POR program, with a generation bad-debt tracker, for all Ohio electric utilities in the electric utility rules review proceeding Case No. 12-2050-EL-ORD.

In their comments, Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively FirstEnergy”) proposed that the Commission should consider implementing a return component on the default service SSO pricing.⁷ IGS support’s FirstEnergy’s proposal as it recognizes that there are costs being caused by the SSO rate that are not borne in the SSO price. Adding a charge to the SSO rate to reflect the true cost of service for the default rate would be a step in the right direction to cure the discrepancies in the competitive market caused by default service. Such a charge would also raise additional revenue that could be used to compensate the electric utility, returned to all rate payers, used to support clean energy initiatives or any combination thereof.

II. CONCLUSION

IGS would like to commend the Commission and the Ohio legislature for recognizing that competitive electric markets are in the best interest of customers and Ohio in the long run. It is clear that Ohio’s now over decade long transition to competitive markets

⁶ AEP Ohio Initial Comments at 18.

⁷ FirstEnergy Initial Comments at 14-15.

has not resulted in the predicted harm to customers envisioned by opponents of competition. These same opponents are now arguing that a subsidized and protected default rate structure is necessary in order to protect customers. However, until the subsidies and inefficiencies that are inherent in default rates have been addressed, customers will not receive the full benefits of competition and Ohio electric markets will not be fully competitive as prescribed by Ohio law.

Respectfully submitted,

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Summary: Reply Comments electronically filed by Mr. Matthew White on behalf of IGS Energy