BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's Review of the Natural Gas Retail Market Development	)))	Case No. 13-1307-GA-COI

INITIAL COMMENTS OF HESS CORPORATION

I. Background

By Entry issued June 5, 2013, in the above-referenced proceeding, the Commission initiated a docket to review certain aspects of the natural gas retail market and requested interested stakeholders to respond to a series of questions. Pursuant to the Commission's Entry, Hess Corporation ("Hess") hereby submits its initial comments responding to the Commission's questions. Hess provides natural gas supply services to thousands of commercial and industrial customers in 21 states, including Ohio. Since 2004, Hess has been a certified Competitive Retail Natural Gas Supplier ("CRNGS") in Ohio supplying large commercial and industrial ("C&I") customers and has become one of the largest C&I natural gas suppliers in the state. Additionally, Hess, through its Choice-focused affiliate CRNGS, Hess Small Business Services, LLC, has been serving Choice commercial customers in Ohio since 2012. Hess has participated in the Ohio utilities' Standard Choice Offer ("SCO") auctions since their inception and is currently serving SCO tranches behind East Ohio Gas Company d/b/a Dominion East Ohio ("DEO"), Columbia Gas of Ohio ("COH") and Vectren Energy Delivery of Ohio, Inc. ("VEDO"). As the Commission can see, Hess has significant experience with the SCO auctions and the various levels of the Ohio retail natural gas market.

II. Introduction

Hess commends the Commission for its investigation and appreciates the opportunity to offer comments on the state of the Ohio retail natural gas market. The Commission's transition from traditional, utility-supplied default service to a robust retail supply market has been extremely successful resulting in a paradigm that provides customers with clear and transparent price signals, and a multitude of offerings from third-party competitive suppliers. In the comments below, Hess responds to each of the Commission's questions in turn.

III. Comments

1. What regulatory changes, if any, should be made to further support a fully competitive retail natural gas marketplace?

Hess recommends that no regulatory changes be made at this time. Hess commends the Commission for creating and supporting a fully-competitive retail natural gas market. Hess fully endorses the continuation of the Choice retail market. Retail suppliers should continue to be able to market various fixed- and variable-priced supply offerings to all sizes of customers. While price motivates all customers, most residential customers are particularly focused on obtaining the lowest price. Unlike commercial customers which have usage profiles and business interests that make fixed price and "index and cap" offerings attractive, residential customers are not as motivated by obtaining price certainty as they are as getting the lowest price. Residential customers traditionally have been on a variable product and are comfortable with any volatility that comes with taking this supply offering. Fortunately, the ongoing SCO auctions in the DEO, COH and VEDO service territories have continued to provide residential customers with a low and stable price for natural gas supply service. These auctions have enabled residential customers to gain the benefit of wholesale prices while providing transparency throughout the

competitive market place to evaluate various retail supplier offerings. The SCO's low price is intuitive given the fact that when utilities aggregate the large number of customers that have elected SCO service, the suppliers bid on the fixed basis component at a wholesale level. It is difficult for retail suppliers to compete against the SCO price on a straight cost basis because the SCO program allows suppliers to bid on a huge pool of customers at one time and optimize upstream assets for that large, quantifiable group of customers. Accordingly, the SCO product has proven to be the superior option for residential customers seeking a variable-rate product. Of course, residential customers are free to select from a multitude of fixed-price and value-added products currently offered by retail suppliers in the market. Thus, the current framework provides residential customers with a vast array of options that allow them to select a product that fits their needs, risk profile and price preferences.

2. **What types of educational programs, if any, should be implemented to ensure that retail customers are fully aware of the options open to them for purchasing retail natural gas service?**

Hess believes that Ohio customers are some of the most informed and shopping savvy customers in the country. Hess fully supports any additional efforts to educate Ohio customers about the benefits of retail competition and the options that are available to them. If the Commission pursues additional education efforts, it should ensure that education materials fairly present the SCO option.

3. **Does the SCO provide a competitive level playing field for SCO providers and competitive retail natural gas service (CRNGS) providers? For example, how, if at all, do the following processes differ for SCO and CRNGS providers: data collection; contract administration; customer enrollment; and customer service?**

In answering this question, the Commission should focus on whether the SCO facilitates an environment that provides fair prices and competitive choices to all residential and business

customers consistent with the Commission's stated mission.[1] Hess recognizes that there may be costs incurred by the utilities to administer the SCO that are not currently incorporated into the SCO price. To that end, Hess supports any Commission-led inquiry requiring the SCO utilities to delineate all of their actual SCO-related costs that are not incorporated into the SCO price. The Commission could then evaluate the propriety of these costs in an adjudicatory setting allowing interested parties to comment. Such costs should not be estimated and must be supported by documented evidence to ensure that SCO customers are only paying actually-incurred costs.

Hess is extremely concerned with any efforts to artificially inflate the SCO price in the name of "leveling the playing field" between SCO and retail suppliers. As Hess explained above, it has proven to be difficult for retail suppliers to compete against the SCO price on a straight cost basis because the SCO program allows suppliers to bid on a huge pool of customers at one time and optimize upstream assets for that large, quantifiable group of customers. It is true that there are inherent differences between the SCO and retail Choice products. For instance, given the nature of how the SCO price is derived, SCO suppliers do not incur various advertising and marketing costs that retail suppliers must incur to gain and keep retail customers. Despite these differences, the Commission should refrain from developing and incorporating proxy costs into the SCO price that reflect categories of costs that are borne by retail suppliers, but that are not by SCO suppliers. Incorporating "phantom" costs (*i.e.*, those that do not reflect actual costs) into the SCO price solely to make it easier for retail suppliers to compete with the SCO price would have disastrous effects on the Ohio retail market. Most importantly, it would

[1] The Public Utilities Commission of Ohio's Mission is "to assure all residential and business consumers access to adequate, safe and reliable utility services at fair prices, while facilitating an environment that provides competitive choices." *See* http://www.puco.ohio.gov/puco/index.cfm/about-the-commission/mission-and-commitments.

needlessly increase the costs of SCO customers. Obviously, SCO customers will pay higher rates if new costs were introduced to the program. Also, a move to inflate the SCO price would inject a significant amount of regulatory uncertainly into the market. SCO bidders would have to build in higher premiums to cover the increased migration risk that will result if the SCO price is artificially raised. Further, in incorporating artificial costs into the SCO, the Commission would be sending a clear signal that it will take steps to undermine the SCO option regardless of how successful it has been. In response, SCO bidders will have no incentive whatsoever to continue to make necessary long-term investments if it is very likely that the SCO program will be discontinued in the near future. As a result, SCO prices will increase without the proper long-term incentives in place. Artificially inflating the SCO price just to make retail suppliers' offerings more competitive on a straight cost basis is clearly wrong from a policy standpoint in that it would needlessly increase costs to customers and undermine the significant progress the Commission has made in developing one of the most robust competitive retail markets in the country.

4. Are there barriers to market entry associated with the SCO and, if so, how are those barriers affecting the growth of Ohio's competitive market?

At this time the only barriers to the market are necessary ones. In order to participate in a SCO auction, SCO bidders must pass rigorous credit requirements to protect SCO customers from an SCO supplier default. Given the hyper-competitiveness of the current SCO programs (evidenced through the steadily declining auction results), there are no barriers affecting the growth of Ohio's competitive market and Hess does not believe that any changes should be made in this regard.

5. Is the SCO functioning at a competitive market price?

The answer is unequivocally "yes" as the evidence clearly demonstrates. The SCO price has continually declined since DEO's first auction took place in 2009. DEO's SCO price has sharply declined from NYMEX + $1.40 in 2009 to NYMEX + $.60 in 2012 and 2013. COH's SCO price has declined from NYMEX + $1.53 in 2012 to NYMEX + $1.29 in 2013. Again, as Hess explained, the SCO program allows suppliers to compete at the wholesale level and annually produces a low-cost alternative for residential customers that prefer taking a variable rate. With this outcome, the SCO program is a proven, reliable, and cost-effective tool to transition the merchant function responsibilities from Ohio utilities to competitive suppliers. As such, Ohio's SCO programs clearly fulfill the state policy to achieve effective competition for gas supply procurement.

IV. Conclusion

Hess respectfully requests that the Commission consider its comments provided herein.

Respectfully submitted,

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Summary: Comments Initial Comments of Hess Corporation electronically filed by Mr. William D Zuretti on behalf of Hess Corporation