

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission's Review	)	
of Customer Rate Impacts from Ohio	)	Case No. 13-1530-EL-UNC
Power Company's Transition to Market	)	
Based Rates.		

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**COMMENTS OF INTERSTATE GAS SUPPLY, INC**

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**I. INTRODUCTION**

On June 27, 2013, the Commission issued an Entry in the above captioned proceeding requesting comments of interested parties on how to avoid adverse customer rate impacts as AEP-Ohio ("AEP") transitions to market based rates. Specifically, the Commission requested comments on, without limitation: "cross subsidies among tariff classes; phase-outs of historic rate design mechanisms; methodologies to transition to market based rates; and potential impacts on high winter usage customers."

Interstate Gas Supply, Inc. ("IGS Energy" or "IGS") is a competitive retail electric and natural gas supplier serving over 1,000,000 customers in 11 states. IGS is also an active participant in numerous regulatory proceedings in competitive utility service territories throughout the country and thus has unique insights on structuring competitive energy markets so as to benefit all customers. IGS also filed testimony in the most recent AEP ESP proceeding (PUCO Case No. 11-346-EL-SSO "AEP ESP Case") and is familiar with AEP's continuing transition to fully competitive electric markets.

In its testimony filed in the AEP ESP Case, IGS Energy proposed conducting retail auctions in order to serve AEP's remaining standard service offer ("SSO") customers.<sup>1</sup> In these comments, IGS will further explain the mechanics of a retail auction proposal, and explain why such a proposal could mitigate any adverse rate impacts as AEP transitions to greater competition. As such, consistent with its Order issued in the AEP ESP Case, the Commission should implement a retail auction to serve AEP's remaining SSO customers, as more fully explained herein.

## **II. COMMENTS**

On August 8, 2012, the Commission issued an Opinion and Order in the AEP ESP Case approving AEP's ESP Application with some modifications ("AEP ESP Order"). The AEP ESP Order sets forth the construct under which AEP's SSO price is established for AEP's SSO customers.<sup>2</sup> Further, beginning June 1, 2014, the Commission ordered that 60% of AEP's SSO rate will be established by an energy-only auction, to be blended in with AEP's current SSO rate structure. Beginning January 1, 2015, 100% of AEP's SSO rate will be established by an energy-only auction, and beginning June 1, 2015, AEP's SSO rate will be established 100% by an energy and capacity auction.<sup>3</sup>

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<sup>1</sup> PUCO Case No. 11-346-EL-SSO, Direct Testimony of Vincent Parisi (May 4, 2012) at 21-24.

<sup>2</sup> When IGS refers to AEP's SSO rate in this proceeding, IGS is referring to the charges that are bypassable to shopping customers, and does not include non-bypassable charges that must be paid for by all AEP distribution customers. In accordance with AEP ESP Order, AEP's current SSO rate consists of four components: AEP's base generation rates which are frozen throughout the ESP period; a fuel adjustment clause ("Rider FAC") which encompasses the variable costs to provide energy to SSO customers; an alternative energy rider ("Rider AER"); and a transmission cost recovery rider ("Rider TCRR").

<sup>3</sup> AEP ESP Order at 38-40.

In the AEP ESP Order, the Commission also established a mechanism by which AEP can recover AEP's alleged capacity costs from CRES suppliers. The Commission determined that CRES providers should pay PJM market capacity rates throughout the ESP period. However, the Commission determined that AEP should be allowed to recover \$188 per megawatt day ("MW-Day") for the capacity needed to meet shopping customer's requirements during the ESP period.<sup>4</sup> The Commission ordered that the difference between the capacity prices paid by CRES suppliers and the \$188 per MW-Day should be recovered by AEP after the ESP period, thus deferring a significant amount of money to be recovered from AEP customers at a later date ("AEP Deferral").<sup>5</sup>

#### **A. Retail Auctions Should Be Adopted to Serve AEP's SSO Load.**

In the AEP ESP Case, IGS filed the direct testimony of Vincent Parisi which, among other things, proposed that AEP conduct a retail auction to serve its SSO load.<sup>6</sup> While some of the details of the retail auction proposal set forth by Mr. Parisi are flexible and can be determined at a later date, two fundamental attributes of the retail auction would bring great value to AEP customers. First, a retail auction would further the Commission's stated goal of transitioning to fully competitive markets for the benefit of all customers. Second, the funds generated by a retail auction could be used to pay down the significant AEP Deferral approved by the Commission, a burden that all ratepayers will bear after AEP's ESP period expires.

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<sup>4</sup> Id. at 50-52

<sup>5</sup> While the majority of the AEP deferral will be recovered from AEP customers after the ESP period, \$1.00 per MWH recovered through the Commission approved Rider RSR is currently being applied towards paying down the AEP deferral. Id at 36.

<sup>6</sup> Direct Testimony of Vincent Parisi, at 21-24 (May 4, 2013); PUCO Case No. 11-0346-EL-SSO.

Mr. Parisi explained that in a retail auction CRES suppliers bid a dollar amount per customer to serve SSO customers. The auction itself would be an ascending clock auction, where qualified CRES suppliers bid on the number of tranches they would be willing to serve at the auction's pre-determined SSO price. During the auction, the dollar amount per customer would increase incrementally, until the amount of tranches CRES suppliers are willing to serve equals the number of tranches available to be won in the auction. The SSO price itself could be structured as a fixed rate for a fixed period of time (e.g., one year) or a variation on that theme.<sup>7</sup>

After the fixed-price period, SSO customers would continue to receive SSO service from the winning supplier, until they choose to leave the SSO for another product in the market. The rate that SSO customers would receive from the winning CRES supplier after the fixed price period would be the specific supplier's generally available and publicly posted monthly variable rate ("MVR"). The CRES supplier's SSO rate during the fixed-price period and beyond would be published on the PUCO Apples-to-Apples website, transparent to all. Further, the list of customers receiving the SSO rate would be available to all CRES suppliers so that other competitive offers can easily be made to those customers.

The SSO product would have no cancellation fee, and customers would be free to come and go at any time from the SSO product, just as they are today. In instances where a customer does not elect a supplier, or opts-in to the SSO product, the customer would be randomly assigned to a CRES supplier (not necessarily a retail auction winner) at its generally available MVR rate published on the PUCO Apples-to-Apples

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<sup>7</sup> Id.

website. Further, opt-out government aggregations would be eligible to serve all SSO customers remaining on the SSO rate, just as they are today.

## **B. Retail Auctions Are Permissible Under Ohio Law.**

The retail auction model proposed by IGS is clearly permissible under Ohio law. R.C. 4928.141(A) states that an EDU shall provide customers the option of a “standard service offer of all competitive retail electric services necessary to maintain essential electric service to consumers.” R.C. 4928.141(A) then states that an EDU’s SSO must be approved in accordance with either R.C. 4928.142 or R.C. 4928.143.

R.C. 4928.142 identifies a competitive bidding process (often referred to as a market rate offer or MRO) as a means to establish an SSO. However, nothing in R.C. 4928.142 limits the competitive bidding process to a wholesale auction, nor does R.C. 4928.142 require that customers be automatically enrolled in the SSO generation service upon enrollment in EDU distribution service.

Ohio law also allows an SSO rate to be established through an ESP under R.C. 4928.143. All current EDU SSOs have been approved by the Commission under the ESP construct. An ESP provides the Commission with even more flexibility than an MRO to establish an SSO. R.C. 4928.143(B)(1) provides “an electric security plan shall include provisions relating to the supply and pricing of electric generation service.” R.C. 4928.143(B)(2) permits a number of items that *may* be included in the ESP, *without* limitation. But nothing in R.C. 4928.143 requires a wholesale auction to establish the SSO, nor does this section require that customers be automatically enrolled in the SSO upon enrollment in EDU distribution service.

Essentially, these statutes establish that an SSO must be available to customers, and they provide a means by which an EDU may receive SSO approval. But these statutes give the Commission great discretion to determine how the SSO is structured. Ohio law does not lock the Commission into the current subsidized wholesale default SSO structure. Ohio law allows for great flexibility for an SSO. This flexibility was built in intentionally, because with the enactment of SB 3 and then SB 221, it was understood that Ohio electric markets would continually evolve to allow greater and greater competition. This regulatory flexibility also accords with the policy of the State to “[r]ecognize the continuing emergence of competitive electricity markets through the development and implementation of flexible regulatory treatment.” R.C. 4928.02(G).

The Commission has already exercised its great regulatory flexibility to require divestiture of all electric generation assets for three major Ohio electric EDUs (and soon all four).<sup>8</sup> Currently FirstEnergy Ohio and Duke Energy Ohio no longer provide SSO generation service, but rather both utilities solicit competitive suppliers via competitive bidding process to serve the SSO. The Commission also ordered AEP to transition to a competitive bidding process to serve its SSO product, and soon AEP’s SSO product will be served entirely by competitive energy suppliers.<sup>9</sup> In other words, the Commission has already authorized competitive suppliers to serve the SSO product. The retail auction proposed by IGS would merely continue the Commission’s policy to serve SSO

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<sup>8</sup> FirstEnergy Ohio and Duke Energy Ohio have both divested their electric generation assets. AEP Ohio was ordered to divest all of its electric generation assets in the AEP ESP Case. Dayton Power and Light (“DP&L”) has filed an ESP application at the Commission requesting permission to divest all of its electric generation assets. DP&L application is currently under review but IGS expects that DP&L’s request to divest its generation assets will also be approved given the Commission’s approval of divestiture for other Ohio utilities.

<sup>9</sup> See AEP ESP Order.

customers via competitive suppliers—while spurring retail market development and directly funding the AEP deferral.

### **C. Retail Auctions Are Consistent with the AEP ESP Order.**

The retail auction proposal described above is also consistent with AEP's ESP Order. As already noted, starting June 1, 2014, 60% of AEP's SSO load is scheduled to be served through an energy-only auction. Therefore, on June 1, 2014, consistent with AEP's ESP Order, 60% of the remaining SSO customers could randomly be assigned to be served by a retail auction, and the remaining 40% of the SSO customers would remain on AEP's current SSO rate. On January 1, 2015, the remaining 40% of AEP's SSO customers could begin receiving SSO service via the retail auction mechanism. On June 1, 2015, retail auction suppliers would then have the responsibility for procuring capacity for their SSO customers, and thus the capacity prices for CRES suppliers would be reflected in the SSO price. In the alternative, if the Commission does not wish to have a period where some SSO customers are served by a retail auction and some are not, the Commission could simply select a date to conduct a retail auction to serve 100% of the SSO load (e.g. June 1, 2015).

### **D. Retail Auctions Will Benefit Customers and Continue Ohio Down the Path of Full Retail Competition.**

Conducting a retail auction to serve the SSO will benefit all customers and continue Ohio down the path of full retail electric competition. R.C. 4928.02(G) states that it is the State's policy to "[r]ecognize the continuing emergence of competitive electricity markets through the development and implementation of flexible regulatory treatment."

Ohio encourages the emergence of competitive electric markets because Ohio's legislature wisely recognized that greater competition in the electric markets brings benefits to customers. Competition forces those that are serving electric customers to be more efficient, transparent and to bring greater value to customers. Further, the more customers are engaged in the market, the more customer preferences are known in the marketplace and the more suppliers must adapt to meet those preferences. This is why engaging a customer at the retail level is necessary for customers to receive the full benefits of competition.

Retail auctions will bring customers one step closer to full engagement in the retail market. Under the retail auction proposal, all customers will receive service directly from a supplier that is competing in the marketplace. Further, under the retail auction model, incoming customers will no longer be automatically assigned to SSO service. Rather, new customers will have the option to select a competitive supplier upon enrollment with EDU electric distribution service or alternatively be assigned to the CRES supplier's SSO service.<sup>10</sup> Further, those customers that receive the SSO service will experience electric rates more reflective of those available in the retail market.

While a retail auction would continue to spur competitive growth, it would not change the menu of options available to customers. Under IGS' proposed retail auction model, an SSO product remains available for customers to enroll in at any time. Further, SSO prices will always be published on the PUCO Apples-to-Apples website, transparent to

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<sup>10</sup>Under the current SSO model all new customers are assigned to the EDU SSO generation product immediately upon enrollment for electric distribution service and must remain on the SSO product for a minimum period of time. Further, customers remain on the SSO indefinitely until and unless they affirmatively choose to leave SSO service. Customer inertia, status quo bias, and myriad other factors cause many customers to remain on the SSO, not out of an affirmative choice, but simply because that is the product that they were assigned.

all, including customers and the Commission. And because the SSO product will not contain cancellation fees, customers are free to switch to and from the SSO product at any time. Finally, if an SSO supplier posts an MVR that is out of step with prevailing market prices, other CRES suppliers will see that price and immediately present customers with lower offers, with ready access ensured through their remaining on the customer list.

In today's electric markets, there are many products, beyond traditional electric commodity service, that have great potential to transform the way customers use energy for the better. These include smart thermostats, time-of-use rates, distributed electric generation, demand response, combined heat and power, and battery storage technology, to name a few.<sup>11</sup> However, widespread adoption of these alternative products—and the consequent increased incentive for technical and economic innovation—is hindered because many customers view electricity generation as nothing more than a commodity service provided by a distant utility, rather than a service where they have dynamic choices available to them. This sense of apathy towards electricity is largely due to the fact that for decades customers had no choice for electric service—even now, when customers do have a choice, they are largely incentivized to remain disengaged in the market.

Proof that engagement spurs innovation can be seen in the telecommunications industry. Begun over twenty years ago, the restructuring of the telecommunications industry has led to increased customer engagement and, not surprisingly, dramatic

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<sup>11</sup> And this, of course, does not account for electric products that have not yet been imagined, but could one day dramatically change the way customers use electricity for the better.

innovation, such that products and services that could not even have been imagined only twenty years ago have become commonplace.

In all other markets for products and services, innovation springs from customer engagement and competition in the market place; it is not hammered out in regulatory proceedings. If electric generation service is to evolve into a robust competitive market, the Commission must take steps to increase customer engagement on the retail level. Adopting retail auctions would move Ohio electric markets one step closer to that goal.

**E. Proceeds from a Retail Auction Could Help AEP Customers Avoid Significant Rate Impacts as AEP Transitions to Market Based Rates.**

Not only are retail auctions beneficial to customers in their own right, they also have the immediate concrete benefit of mitigating the adverse rate impact that customers will certainly face as a result of the looming AEP deferral.

The stated purpose of this proceeding is to find means by which AEP customers can avoid adverse rate impacts as AEP transitions to market based rates. Unfortunately, the bill for the AEP Deferral is soon coming due, and it will have adverse impacts on all AEP customers. As described above, the retail auction will raise significant funds from CRES suppliers, as they bid a per dollar amount to serve SSO customers. Money raised by the auction could be used to pay down the deferral AEP customers will face after the ESP period. As such, the structure and timing of the AEP ESP, presents an excellent opportunity to conduct a retail auction in order to pay down the looming AEP deferral.

### III. CONCLUSION

The AEP ESP Order was a great step towards furthering Ohio's electric markets down the path of competition; however, there are still far too few AEP customers engaged in the market. IGS Energy has proposed a retail auction that will continue AEP down the path to full customer engagement in the retail electric markets, with the added benefit of significantly mitigating the adverse rate impact AEP customers will face once the AEP Deferral comes due. As such, at the conclusion of this proceeding, the Commission should issue an order initiating a collaborative for interested parties to establish the details for AEP to conduct a retail auction for its remaining SSO customers, with the intent that such retail auctions be conducted on or before the end of the ESP period.

Respectfully submitted,

/s/ Matthew White

Vincent Parisi (073283)  
Email: vparisi@igsenergy.com  
Matthew White (0082859)  
Email: mswhite@igsenergy.com  
Interstate Gas Supply, Inc.  
6100 Emerald Parkway  
Dublin, Ohio 43016  
Telephone: (614) 659-5000  
Facsimile: (614) 659-5073  
**Attorneys for**  
**Interstate Gas Supply, Inc.**

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing *Comments of Interstate Gas Supply, Inc.* was served upon the following parties of record this 12<sup>th</sup> day of August 2013, via electronic transmission

Werner Margard

Steven Beeler

Public Utilities Commission of Ohio

180 E. Broad St., 6<sup>th</sup> Fl.

Columbus, OH 43215

[Werner.margard@puc.state.oh.us](mailto:Werner.margard@puc.state.oh.us)

[Steven.beeler@puc.state.oh.us](mailto:Steven.beeler@puc.state.oh.us)

Steven T. Nourse

Matthew J. Satterwhite

Yazen Alami

AEP Service Corporation

1 Riverside Plaza, 29th Floor

Columbus, OH 43215

[stnourse@aep.com](mailto:stnourse@aep.com)

[mjsatterwhite@aep.com](mailto:mjsatterwhite@aep.com)

[yalami@aep.com](mailto:yalami@aep.com)

/s/ Matthew White

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