**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service.  In the Matter of Application of Duke Energy Ohio, Inc. for Authority to Amend its Certified Supplier Tariff, P.U.C.O. No. 20. | )  )  )  )  )  )  )  )  )  )  )  ) | Case No. 14-841-EL-SSO  Case No. 14-842-EL-ATA |

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**DIRECT TESTIMONY OF MATTHEW WHITE**

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On behalf of Interstate Gas Supply, Inc.

**I. INTRODUCTION AND PURPOSE OF TESTIMONY**

**Q.** **Please introduce yourself.**

# A. My name is Matthew White. I am employed by Interstate Gas Supply, Inc. (“IGS” or “IGS Energy”) as Manager, Legal and Regulatory Affairs. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

**Q. Please describe your educational background and work history.**

A. I have a Juris Doctor (J.D.) and Masters in Business Administration (M.B.A.) from the College of William & Mary. I also have a Bachelor of Arts (B.A.) from Ohio University. I started my legal career working at the law firm of Chester, Wilcox & Saxbe as an energy and utilities lawyer. At Chester Wilcox, I participated in numerous regulatory proceedings relating to utility matters, including natural gas and electric rate cases and electric power siting cases. I also have worked on power and gas sales transactions. At the beginning of 2011, I was hired into IGS Energy’s rotation program where I spent the next 16 months working in various different departments throughout the company learning IGS’ entire business, including the gas supply and risk departments. In 2012 I began full-time as an attorney in IGS’ Regulatory Affairs Department. In 2014 I was promoted to Manager, Legal and Regulatory Affairs at IGS. In my current position I manage the legal activities for IGS Energy at utilities commissions and other regulatory bodies throughout the United States. My team is responsible for electric and natural gas litigation for IGS Energy, including electric and natural gas rate cases and other proceedings that relate to energy.

**Q. Have you submitted testimony at any regulatory bodies before?**

A. Yes. I have submitted written testimony in the Duke Natural Gas Distribution Rate Case, (Public Utilities Commission of Ohio “PUCO” Case No. 12-1685-GA-AIR); the DTE 2013-2014 Gas Cost Recovery Case (Michigan Public Service Commission Case No. U-17131); the Columbia Gas of Kentucky 2013 Distribution Rate Case (Kentucky Public Service Commission Case No. 2013-00167); the AEP Ohio Electric Security Plan Proceeding (PUCO Case No. Case No. 13-2385-EL-ORD; The Commonwealth Edison (“ComEd”) Formula Rate Case Proceeding (Illinois Commerce Commission Case No. 14-0312); and the Dayton Power & Light Company Electric Security Plan Proceeding (PUCO Case No. 12-426-EL-SSO).

**Q. What is the nature of IGS’ business?**

A. IGS Energy has over 25 years’ experience serving customers in Ohio’s competitive markets. IGS Energy serves over 1 million customers nationwide and sells natural gas and electricity to customers in 11 states and in over 40 utility service territories. In Ohio, IGS currently serves electric customers in the AEP Ohio, Duke Energy Ohio, FirstEnergy and the Dayton Power & Light service territories. The IGS family of companies (which include IGS Generation, IGS Home Services and IGS CNG Services) also provides customer focused energy solutions that compliment IGS Energy’s core commodity business including distributed generation, demand response, CNG refueling, back-up generation and utility line protection.

**Q.** **What is the purpose of your testimony?**

A. Duke makes a number of proposals in its electric security plan application (“ESP Application”) that do not comply with Ohio law, and that are otherwise discriminatory against competitive retail electric service (“CRES”) suppliers and shopping customers. Consequently, the Commission should not approve the ESP Application unless certain modifications are made to the application. Specifically:

* In the ESP Application Duke unreasonably proposes to amend its tariff to prohibit CRES suppliers from including non-electric charges on the utility bill. However, Duke currently places non-electric charges for itself and its unregulated affiliate on the utility bill. Duke’s proposal to prohibit CRES suppliers from billing for non-electric products, while at the same time billing for its affiliate’s non-electric products is discriminatory and contrary to Ohio law. Further, Duke’s proposal would allow it to provide an undue preference and competitive advantage to its affiliate in violation of R.C. 4928.17(A)(2) and (3). As Ohio’s competitive markets progress, it is even more important for CRES suppliers to be able to offer value added products and services, beyond the electric commodity. Thus, Duke’s proposal to restrict CRES supplier billing will greatly diminish a customer’s ability to receive value added products and should be rejected.
* While Duke continues to bill for unregulated non-commodity products and services, Duke fails to provide any detail as to how it is allocating costs of these products and services. What is known is that Duke is utilizing distribution assets to support its unregulated non-commodity products and services. As part of the ESP application, Duke must demonstrate that it is in compliance with Ohio’s corporate separation requirements. Duke has not met this requirement as Duke has not demonstrated that distribution ratepayers are not unduly subsidizing Duke’s affiliate or unregulated products and services.
* I recommend that the Commission direct Duke in this proceeding to allow competitive suppliers to bill for non-commodity services on the utility bill. However, the Commission should also direct Duke to expeditiously develop the capabilities to allow CRES suppliers to provide supplier consolidated billing. As more fully explained in my testimony, supplier consolidated billing would enable CRES suppliers to provide customers with a single bill that includes utility distribution charges.
* Duke’s proposed SSO does not reflect the full cost of providing SSO service in the SSO price. Rather, there are a number of costs incurred to support the SSO that are recovered through distribution rates. The utilization of distribution rates to subsidize SSO service violates Ohio’s statutes that prohibit subsidies flowing from distribution rates to SSO service. Moreover, R.C. 4928.02(A) and (B) provides that it is the state policy to “[e]nsure the availability to consumers of adequate, reliable, safe, efficient, *nondiscriminatory* . . . . *unbundled and comparable retail electric services*.” (emphasis added). As such, I recommend that the Commission unbundle the costs recovered through distribution rates required to support the SSO and include those costs in the SSO price. My recommendation would address the current disparity in pricing structure of the SSO and CRES products, which is non-comparable and discriminates against shopping customers.

II. **UTILITY BILLING**

**Q. Can you please explain the proposal Duke has made that would prohibit CRES suppliers from billing non-commodity services on the utility bill?**

A. Yes. On page 8 of his testimony, Witness Daniel Jones states that in the ESP Application Duke is proposing to amend its tariff to prohibit CRES suppliers from using the bill-ready function to bill for non-electric charges.

**Q. Why is it important that CRES providers have the ability to offer non-commodity products and services to customers?**

A. One of the major benefits of competition is that it encourages the development of innovative products and services that add value to customers beyond the electric commodity. As competitive markets and technology evolve, customers will start seeing electricity as more than just the commodity, but rather a package of products and services that include the electric commodity. CRES suppliers such as IGS are starting to develop new products and services that add value to customers. The most basic value added products and services include fixed or hedged electricity prices and renewable electric products. The market is evolving to offer even more sophisticated electric products and services including electricity bundled with energy efficiency, demand response, direct load control, smart thermostats, distributed solar generation and other forms of on-site generation, micro-grids, battery storage technology, products bundled with loyalty rewards and products bundled with home protection, to name a few. These value added products and services not only add value to customers, but also many of these products enable customers to use electricity more efficiently, reduce customer’s energy costs and enhance electric reliability on the grid.

**Q. Is Duke’s proposal to prohibit billing for CRES non-electric products reasonable?**

A. No. The markets that enable CRES suppliers to offer value added products and services are the markets most likely to see a proliferation of these products and services to customers. Duke’s proposal would limit CRES suppliers’ ability to offer value added products and service to customers. Thus, Duke’s proposal would be a regressive step backwards for customers and competition.

**Q. Why does Duke claim it needs to prohibit CRES suppliers from billing for non-commodity products and services on the EDU bill?**

A. Duke’s Witness Jones claims that Duke needs to prohibit CRES suppliers from billing for non-commodity charges because Duke does not want CRES suppliers to be able to include those charges in the purchase of receivables program (“POR”).

**Q. Is Duke’s rational for prohibiting CRES suppliers from billing for non-commodity charges reasonable?**

A. No. If the Commission does not wish Duke to include non-electric charges in the POR program, it could simply order Duke to file a modified tariff that excludes non-electric charges from its POR program but still allow CRES suppliers to bill for non-electric charges.

**Q. Does Duke currently bill for non-electric products and services?**

A. Yes. I am aware of two unregulated non-electric products offered through Duke’s affiliate that Duke currently places on the utility bill. Those products are StrikeStop service and Underground Protection service. StrikeStop service is an insurance service that provides coverage for damage caused to the customer’s home from electric surges. Underground Protection service is an insurance service that covers damage to the customer’s underground electric lines. Duke advertises these services on its website and advertises that these services are billed on the utility bill.[[1]](#footnote-1)

**Q. Who is the provider of StrikeStop and Underground protection?**

A. Duke’s affiliate Duke Energy One, Inc. (“Duke Energy One”) is the provider of StrikeStop and Underground Protection service. The Terms of Sale linked to Duke’s website indicate that Duke Energy One is the provider of StrikeStop and Underground Protection. Attached as Exhibit (MW-1) is a copy of StrikeStop Terms of Service. Also, Duke Exhibit MEH-2 on page 30 lists Duke Energy One as an affiliated company of Duke.

**Q. Does the fact that Duke already bills for unregulated non-electric charges on its bill for an affiliate indicate that Duke already has the ability to exclude non-electric charges from the POR program, and otherwise ensures non-commodity charges do not trigger customer shut off?**

A. Yes. In discovery RESA asked Duke how it treats the uncollectible expense for its StrikeStop and Underground Protection services. In its response to these questions, Duke indicates that it excludes these charges from its uncollectible expense rider and that these charges cannot trigger customer disconnect. Since Duke already does not recover the uncollectible expense from all distribution customers and does not disconnect customers for failing to pay its non-commodity charges, it would indicate Duke has the ability to differentiate between unregulated non-electric charges and electric commodity charges.

**Q. Do you know if Duke bills for any other non-electric products and services?**

A. Yes. In discovery, Duke indicated that it bills for a service that provides maintenance of customer sited lighting. Duke indicates that it provides this non-electric service to customers directly.

**Q. Is it reasonable that Duke is seeking to prohibit CRES suppliers from billing non-electric charges while at the same time allowing itself and its unregulated affiliate to bill for non-electric charges on the utility bill?**

A. No. It is unreasonable and discriminatory that Duke is willing to bill unregulated non-electric charges for itself and its affiliate, but at the same time, seeking to prohibit CRES providers from placing non-electric charges on the utility bill.

**Q. Do you recommend that the Commission accept Duke’s proposal to modify its tariff to prohibit CRES suppliers from billing non-commodity charges on the utility bill?**

A. No. I recommend that the Commission reject Duke’s proposal to modify its tariff to prohibit CRES suppliers from offering non-electric charges on the utility bill. Duke’s proposal will significantly restrict CRES suppliers’ ability to differentiate their electric commodity products with value added products and services. Ultimately this will limit the number of value added products and services available to customers in the Duke market, to the detriment of all Duke customers. The Commission should also reject Duke’s proposal given that Duke grants preferential access to the utility bill for its affiliate’s unregulated products but now is attempting to exclude other competitive products from the bill.

**Q. Are there any other recommendations you have with respect to non-electric billing?**

A. The Commission should also require that Duke update its tariff to explicitly allow CRES providers to use the bill-ready function to bill for non-electric charges and to exclude non-electric charges from Duke’s POR program. The Commission should also direct Duke to update its tariffs to treat CRES non-electric charges with respect to payment priority in the same manner Duke treats the non-electric charges for its affiliate Duke Energy One.

**III. CORPORATE SEPARATION**

**Q. Why is it important that Duke provide information about the non-electric charges it is currently billing on the utility bill?**

A. First, Duke’s willingness to place affiliate non-electric charges on the utility bill is directly relevant to the reasonableness of Duke’s proposal to prohibit CRES providers from placing non-electric charges on the utility bill. Second, R.C. 4928.17 requires that Duke demonstrate in its ESP Application that it is in compliance with Ohio’s corporate separation statutes and Duke’s corporate separation plan. However, in discovery, Duke has indicated that it does not have any billing agreements with Duke Energy One to bill for StrikeStop and Underground Protection service, nor is it clear whether Duke is allocating costs for billing for these services. What *is* known though is that 1) Duke currently bills for non-electric products and services for its affiliate, 2) the non-electric products and services Duke bills are unregulated, 3) Duke is leveraging regulated distribution ratepayer assets to offer un-regulated non-electric products and services for its affiliate 4) there are costs Duke incurs to offer these unregulated products and services to customers and 5) Ohio’s corporate separation statute.

**Q. Is there any Ohio law or Commission rule that prohibits preferential treatment to a utility affiliate?**

A. Yes. R.C. 4928.17(A)(2), Rule 4901:1-37, OAC, and Duke’s corporate separation plan prohibit Duke from providing a competitive advantage or preference to its affiliate or internal business unit. Further, R.C. 4928.17(A)(3), (Ohio’s Corporate Statute) and Duke’s corporate separation plan require Duke to allocate fully embedded costs for any services or resources Duke provides to its affiliate (or internal business unit) engaged in the business of providing retail electric service or products or services other than retail electric service.

**Q. Has IGS asked Duke how it allocates costs to StrikeStop and Underground Protection service?**

A. Yes. IGS asked Duke in discovery for the specific sections in Duke’s cost allocation manual (“CAM”) that relate to StrikeStop and Underground Protection. Also, in discovery, RESA asked Duke for the contracts that relate to the billing for StrikeStop and Underground Protection. Duke, however, was unwilling to provide any answers to the questions asked by IGS and RESA. Accordingly, Duke has not offered any evidence to demonstrate that it is allocating costs to its affiliates in compliance with its corporate separation plan and Ohio’s corporate separation statutes.

**Q. Has IGS asked Duke how it allocates costs to the unregulated products and services it provides to customers?**

A. Yes. Duke was asked in discovery how it allocated costs to the unregulated non-electric products and services it offers to customers directly and Duke responded that it did not know how it was going to allocate costs to the services it provides to customers directly. However, as I already testified, Duke providing maintenance service for customer sited lighting that it offers directly to customers. Thus, it appears Duke is providing unregulated service to customers without even determining how it will allocate costs to that service.

**Q. Why is it important that Duke allocate costs appropriately to its unregulated products and services?**

A. First, Duke is leveraging distribution ratepayer’s assets to offer unregulated products and services to customers. Duke must allocate costs appropriately to these services, because if it does not, distribution ratepayers would be subsidizing the unregulated products and services Duke provides. It is unreasonable for distribution ratepayers to subsidize an unregulated product and service. Second, the unregulated products and services Duke is currently providing are competitive products. The unregulated products Duke is offering are not “natural monopoly” products like electric distribution service. There are numerous competitors that are able to offer these products to customers. Thus, if Duke is able to subsidize these products through distribution rates, it would amount to an anti-competitive and unlawful advantage provided to Duke’s unregulated products and services, to the detriment of all other products and services in the market.

**Q. What information must Duke provide in order for the Commission to make a reasonable determination about whether Duke is in compliance with its corporate separation requirements?**

A. In order for the Commission to make a meaningful determination as to whether Duke is in compliance with Duke’s corporate separation plan and the corporate separation requirements set forth in 4928.17 the Commission must know 1) all of the unregulated non-electric products and services Duke or its affiliates are providing to customers and 2) how Duke is allocating costs to the non-electric products and services to customers including the fully embedded costs to provide its unregulated services to customers and 3) whether Duke’s unregulated affiliates that provide non-electric service are getting preferential access to EDU customer information including account numbers and customer lists.

**Q. Has Duke filed testimony in this proceeding regarding their corporate separation plan?**

A. Yes. Duke witness Hollis provide testimony on the corporate separation plan (“CSP”) attempting to demonstrate Duke’s compliance with its CSP. Mr. Hollis attached Duke’s CSP to his testimony as Duke Exhibit MEH-2.

**Q. Does Duke Mention StrikeStop or Underground Protection services in its CSP?**

A. No. Duke makes no reference to StrikeStop or Underground protection. Duke merely lists Duke Energy One as one of dozens of Duke’s affiliates. However, the CSP does not describe how Duke Energy One is being allocated costs nor does the CSP describe the services that Duke is providing to Duke Energy One. The CSP, however, refers to Duke’s CAM claiming that Duke is allocating costs to its affiliates in accordance to Duke’s CAM. In discovery, both IGS and RESA asked for information from Duke’s CAM but Duke has refused to provide its CAM to IGS and RESA claiming that Duke’s CAM is not relevant to this proceeding.

**Q. Has Duke demonstrated in its ESP Application that it is in compliance with its CSP?**

A. No. Given that Duke has provided limited information that relates to how it allocates costs to non-electric products and services which Duke offers either through itself or its affiliates, Duke has not demonstrated that it is in compliance with its corporate separation requirements.

**IV. SUPPLIER CONSOLIDATED BIILING**

**Q. Why is it important for CRES providers to have flexibility when billing for electric service?**

A. As I note already, more and more customers are demanding value added products and services with their electric commodity. Therefore, it is important to be able to bill for value added products and services in a way that is convenient for customers. For instance, if a customer enrolls in a product with a CRES that includes the electric commodity, a smart-thermostat, energy monitoring, energy efficiency and demand response, the customer does not want separate bills for each individual component of that product. Further, customers may not even want a separate price for each service, but rather may want a bundled all-in price. Therefore, in order for CRES providers to offer value added products and services that customers prefer it is important to have billing flexibility for electric service.

**Q. You have already requested that the Commission require Duke to allow CRES providers to bill for non-electric charges on the utility bill. Is there another option that will give CRES providers the flexibility to bill for non-electric charges?**

A. Yes. The Commission should also require that Duke take steps necessary to allow all CRES providers to have the option of supplier consolidated billing.

**Q. Are you recommending supplier consolidated billing as an alternative to rejecting Duke’s proposal to exclude non-electric charges on the utility bill?**

A. No. I am recommending the Commission reject Duke’s proposal for excluding CRES non-electric charges for utility consolidated billing *and* that the Commission order Duke to implement supplier consolidated billing. It is important the Commission adopt both recommendations because it may take time for Duke to implement supplier consolidated billing. In the meantime CRES providers should be able to use the Duke bill-ready option to bill for non-electric charges.

**Q. How does supplier consolidated billing differ from utility consolidated billing?**

A. Supplier consolidated billing would enable CRES suppliers to provide customers with a single bill for all the components of electric service, including the non-electric components. Supplier consolidated billing is similar to utility consolidated billing in that the customer will receive only one bill for electric distribution and generation service. However, with supplier consolidated billing model, the CRES supplier issues the bill to the customer instead of the utility.

**Q. How does supplier consolidated billing work?**

A. Under the supplier consolidated billing model, the CRES supplier purchases the receivables from the utility for the utility distribution charges upfront, making the utility whole for all electric distribution charges and other regulated charges the utility may be authorized to collect from customers. After the CRES purchases the receivables from the utility, the CRES supplier is then responsible for collecting and billing all electric distribution and generation charges from the customer. Under the supplier consolidated billing model, the customer does not receive a bill from the utility.

**Q. Currently can CRES suppliers issue bills to Duke customers?**

A. Currently CRES suppliers can bill for their electric generation charges, but they must do so under the dual billing option. Under the dual billing option, CRES providers must issue a separate bill for electric generation charges, and Duke would still issue a bill for distribution charges. However, very few CRES suppliers elect dual billing for residential customers because under this option customers receive two separate bills which is inconvenient for the customer. Most, if not all, CRES providers utilize utility consolidated billing for residential customers.

Q. **Under supplier consolidated billing, would non-payment of non-electric commodity charges trigger disconnection protocols toward a customer?**

A. No. While CRES providers would be able to bill non-electric charges on the customer’s bills, with supplier consolidated billing, failure to pay non-electric charges would not trigger disconnection for the customer. Disconnect would only be applicable to electric charges and be subject to the same laws and procedures as today. Further, it would still be the utility’s responsibility to initiate the physical disconnect for the customer.

**Q. Would CRES suppliers still have to abide by the same billing rules and billing format as the EDUs if supplier consolidated billing is adopted?**

A. Yes. Currently Ohio has rules that govern how utilities must bill customers, and have specific requirements for each utility bill. Under supplier consolidated billing, CRES providers would still be subject to the same billing requirements in the rules and statutes today.

**Q. How do you recommend that Duke’s Application be modified to allow for supplier consolidated billing?**

A. I recommend that the Commission modify the ESP Application to require Duke to expeditiously develop the supplier consolidated billing option for CRES suppliers and order Duke to make any IT updates and changes to its tariffs and billing manuals.

**Q. Are you recommending that Duke discontinue the utility consolidated billing option?**

A. No. Duke should still make the utility consolidated billing option available to CRES providers. CRES providers should have the option to choose between supplier consolidated billing and utility supplier billing. This will allow for the most billing flexibility for customers.

**V. UNBUNDLING OF COSTS**

**Q. Has IGS in previous ESP proceedings advocated for proposals that would encourage customers to engage in Ohio’s competitive retail electric markets?**

A. Yes. IGS continues to advocate for moving Ohio’s competitive retail electric markets forward in a way that encourages customer engagement. In order for customers to be more willing to adopt value added products and services that enable them to use and consume energy more efficiently, customers must be engaged in the competitive retail electric market. Unfortunately, the current SSO service discourages customer engagement and encourages customers to view electric service as a commodity only product over which they have no control. As such, IGS has made a number of proposals over the years that would encourage customers to affirmatively choose a retail electric product based on the preferences of the customer.

**Q. Are customers currently engaging in the Duke retail electric market?**

A. The retail electric switching statistics paint a mixed picture for customer engagement in the Duke service territory. Certainly, with respect to Commercial and Industrial sales in the Duke service territory there appears to be a significant number of customers engaged in the market, with 82.5% and 96% of the load for those customers, respectively, being served by a CRES supplier. However, the residential switched load in Duke is much less with only 49.6% of residential load being served by a CRES supplier. Attached as Exhibit (MW-2) is the most recent PUCO switching statistics.

**Q. How much of the switched load in Duke’s service territory is being served by aggregation?**

A. IGS asked Duke in discovery what was the percentage of switched residential load being served by aggregations and like almost every discovery response IGS asked Duke, Duke refused to provide an answer to that question claiming the information is not relevant to the ESP Application. With that said, the most recent aggregation report published by the Commission indicates that 59% of the residential switched load in Ohio is a result of community aggregation. Attached as Exhibit (MW-3) is the most recent Ohio aggregation report. Thus applying the Ohio aggregation percentage to the number of residential switched load in Duke would indicate that only about 20% of the residential retail customers in Duke have affirmatively enrolled in a competitive product with a CRES. It also should be noted the City of Cincinnati -by far the largest city in the Duke service territory- has elected for an opt-out aggregation; therefore, the percentage of customers affirmatively enrolled with a CRES may be even less than 20%.

**Q. What can be concluded about the level of customer engagement in the Duke service territory?**

A. It can be concluded that the Ohio competitive electric markets have done a good job encouraging opt-out aggregation and shopping for commercial and industrial classes. However, the level of customer engagement for the residential class is lacking. To put this in perspective, at the time of this testimony, there are 30 suppliers listed on the PUCO Apples to Apples site offering 76 electric products in the Duke service territory, yet the SSO retains over 50% of the residential market share. I have created a chart below for illustrative purposes:

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| **Duke Residential Market Share** | |
| SSO Default Rate Product | 50.4% |
| Aggregation | 29.6% |
| Affirmatively Elected Products | 20% |

The percentages above are estimates based on the publicly available data that I have access to at the time of the testimony. However, I think it is undisputable that one single product (the SSO product) retains a disproportionate amount of market share for residential customers, particularly given that there are so many other available CRES competitive products in the market.

**Q. Has IGS made proposals in other ESP proceedings to encourage customer engagement in Ohio?**

A. Yes. In the most recent AEP ESP proceeding (Case No. 13-2385-EL-SSO), IGS has proposed that the Commission either conduct a retail auction to procure SSO service so that CRES suppliers would serve SSO customers directly. Further, IGS has proposed a retail price adder (“RPA”) which is a fee charged to suppliers of SSO service that reflects the cost of providing retail electric service in the market. The Commission is yet to make a determination on those proposals.

**Q. Does IGS recommend that the Commission adopt these proposals for the Duke SSO as well?**

A. Yes. Just like for the AEP SSO service, I recommend that the Commission adopt a retail auction or an RPA proposal for the Duke SSO service. Both of these proposals will encourage customers to engage in the retail market and tilt the anti-competitive advantage away from the SSO service. Further, as I note in my testimony in the AEP ESP proceeding, the Commission has the authority under Ohio law to make these modifications to Duke’s SSO service.

**Q. Are there other measured steps that the Commission could take to encourage residential customer engagement in Duke’s retail electric markets?**

A. Yes. At a minimum, the Commission should unbundle the costs Duke incurs in distribution rates that are required to support SSO service. Currently, Duke’s SSO price is simply a pass-through of wholesale capacity and electric costs with just a de-minimis charge added on to cover the cost paid to the wholesale auction manager to conduct SSO auctions. However, Duke incurs a number of other actual costs required to support SSO service, but those costs are not reflected in the SSO price; instead they are recovered through Duke’s distribution rates. Ohio law requires that the SSO price be comparable and non-discriminatory to other products and services in the market. Further, Ohio law prohibits subsidies flowing from distribution rates to SSO service. Thus, Duke’s SSO price should reflect all of the costs required to support SSO service, and those costs should not be recovered through distribution rates.

**Q. Can you please give examples of costs Duke incurs to support SSO service, but are recovered through distribution rates?**

A. Yes. There are a number of costs Duke incurs required to support SSO service including legal expenses incurred to establish the SSO price; an allocation of Duke employee costs for the time Duke employees work to make the SSO rate available to customers; Duke infrastructure costs, including IT costs used to support the SSO and SSO customers; the cost of working capital Duke incurs to purchase SSO supply up-front, but bill SSO customers later; customer call center costs incurred when customers inquire about their SSO generation service; and allocation of a portion of overhead expense, because the SSO could not be made available to customers without the use of Duke’s overhead. All of these costs are not reflected in the SSO price but rather recovered through distribution rates.

**Q. How should the Commission treat the costs Duke incurs for procuring SSO service for customers that are currently being recovered through distribution rates?**

A. The Commission should start allocating these costs to the SSO price. As any supplier can attest to, the cost of providing retail electric service consist of more than just a pass-through of wholesale energy prices. As noted above, there are a number of non-electric costs that are required to offer SSO service to residential electric customers that are currently being recovered through distribution rates.

**Q. Are there other examples of disparity of costs allocated to the SSO price vs. the costs allocated to CRES providers?**

A. Yes. Duke’s supplier tariff sheet 52.3 lists a multitude of charges that Duke places on CRES providers that offer retail electric service in the Duke service territory. Those charges include:

* CRES registration fees;
* customer switching fees;
* customer list fees;
* fees for submitting market monitoring reports for CRES suppliers;
* fees to receive customer interval data;
* hourly charges for technical support provided to CRES suppliers;
* fees for bill preparation request.

None of these charges are required of SSO customers or allocated to SSO service.

**Q. Why do these fees demonstrate the subsidies provided to SSO service?**

A. Presumably Duke charges CRES suppliers, or CRES customers, these fees in order to recover costs to make CRES products available to customers. Yet Duke makes available SSO service to customers for free, and does not charge SSO customers comparable fees. Rather, all of the costs to offer SSO service are recovered through distribution rates. One particularly poignant example is the $5 switching fee applied to a customer every time the customer switches to a CRES provider but not charged whenever a customer switches to SSO service. This switching fee continues to exist although there is no legitimate rationale for applying it the CRES customers only.

**Q. Are other states unbundling costs required to support SSO service?**

A. Yes. There are a number of other states and utility Commissions that have begun to unbundle costs recovered through distribution rates that are required to support SSO service. In fact, many of the markets with any level of residential electric shopping have unbundled some costs required to support default service from distribution rates and began recovering those costs through the default service price. Those states include, but are not limited to, New York, Maryland, Pennsylvania, Illinois and Texas. Ohio is behind given that it still continues to treat default service price as just a pass-through price for wholesale electric costs, and other costs required to support SSO service are not included in the default rate.

**Q. Why is it important that the SSO price reflect all of the cost required to support the SSO?**

A. First, it is a requirement in Ohio law that the SSO price be an unbundled comparable price to a *retail* electric product in the market. Second, if the SSO price does not reflect the full costs required to support that service, it will discourage competition, (particularly for the residential class) in Ohio’s retail electric markets. As I noted already, Duke’s SSO service contains a disproportionately high market share, given the numerous other competitive products that are available to customer. By encouraging customers to remain on SSO service, the Commission is effectively adopting a policy that discourages engagement in the retail electric markets. In the long run, a disengaged market with miss out on the multitude of innovative products and technologies that will enhance Ohio’s electric reliability and enable customers to use energy more efficiently.

**Q. What do you recommend the Commission require Duke to do with respect to unbundling of the costs required to support SSO service?**

A. I recommend that the Commission require Duke to start the process of unbundling costs required to support SSO service. The Commission should direct Duke in the earlier of its next ESP Application or distribution rate case to make a proposal that will unbundle the direct costs required to support SSO service and allocate those costs to the SSO price. Those costs should include, but are not limited to an allocation of:

* Duke employee costs;
* Working capital costs;
* IT and other infrastructure costs;
* Customer care costs; and
* Legal costs

**Q. Are there recommendations you make with respect to the customer switching fees?**

A. Yes. The Commission should order Duke to stop applying customer switching fees to customers that switch to CRES service, or at a very minimum, require Duke to start charging switching fees to customers that return to SSO service. There is no justifiable reason why switching fees only apply to CRES customers but not SSO customers.

**V. SUMMARY**

**Q. Can you please summarize the recommendations you make in your testimony?**

A. Yes. I recommend that the Commission:

* reject Duke’s proposal to prohibit CRES suppliers from using the bill ready function to bill for non-electric charges, and order Duke to make the necessary changes to its tariffs to enable CRES suppliers to place non-electric charges on the utility bill;
* find that Duke is not in compliance with its corporate separation plan;
* require that Duke implement supplier consolidated billing
* require that Duke begin unbundling the actual costs Duke recovers through distribution rates and require that those costs be recovered through the SSO price;
* require that Duke stops charging customer switching fees to customers that switch to a CRES provider

**Q. Does this conclude your testimony?**

A. Yes it does.

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the foregoing *IGS Energy’s Second Set of Discovery on Duke Energy Ohio* was served this 26 day of September 2014 via electronic mail upon the following:

*/s/ Joseph Oliker\_\_\_\_\_\_\_*

Joseph Oliker

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| --- | --- | --- |
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1. See <http://www.duke-energy.com/strikestop/>; <http://www.duke-energy.com/underground/> [↑](#footnote-ref-1)