**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Implementation of Sections 4928.54 and 4928.544 of the Revised Code. | :  :  : | Case No. 16-247-EL-UNC |

**STAFF RECOMMENDATION**

On September 29, 2015, revisions and additions to the Ohio Revised Code (R.C.) pertaining to Percentage of Income Payment Plan (PIPP) procurements became effective.[[1]](#footnote-1) These statutory provisions gave direction for the establishment of a new pro­curement process. In consultation with Boston Pacific, PUCO Staff herein presents two options for conducting future procurements to supply PIPP load for Ohio utilities. While both options are issued for evaluation and comment, PUCO Staff respectfully recom­mends the adoption of Option 1, as detailed below.

**LEGISLATIVE BACKGROUND**

R.C. 4928.54, as updated on September 29, 2015, states:

The director of development services shall aggregate percent­age of income payment plan program customers for the pur­pose of establishing a competitive procurement process for the supply of competitive retail electric service for those cus­tomers. The process shall be an auction. Only bidders certi­fied under section 4928.08 of the Revised Code may partici­pate in the auction.

Additionally, key requirements for the PIPP procurement process are now listed at R.C. 4928.542:

The winning bid or bids selected through the competitive pro­curement process established under section 4928.54 of the Revised Code shall meet all of the following requirements:

(A) Be designed to provide reliable competitive retail electric service to percentage of income payment plan program cus­tomers;

(B) Reduce the cost of the percentage of income payment plan program relative to the otherwise applicable standard service offer established under sections 4928.141, 4928.142, and 4928.143 of the Revised Code;

(C) Result in the best value for persons paying the universal service rider under section 4928.52 of the Revised Code.

Importantly, R.C. 4928.542(b) requires that the price paid to PIPP suppliers must be below the price paid to standard service offer (SSO) suppliers. This requirement furthers the goal stated in section (c) of providing the “best value” for those paying the universal service rider, which funds the PIPP program rebates.

R.C. 4928.544 provides that upon written request by the director of development services, the PUCO shall design, manage, and supervise the competitive procurement process required by R.C. 4928.54. On January 5, 2016, Director Goodman of the Ohio Development Services Agency submitted a letter to the Chairman Porter of the PUCO requesting that the PUCO design, manage, and supervise this procurement process. This letter is attached hereto as Attachment A.

Based on these Ohio statutory requirements, PUCO Staff, working in concert with Boston Pacific, determined two options for a PIPP procurement process. PUCO Staff recommends the first of these options for adoption, as discussed below.

**OPTION ONE – PIPP-SEPARATE PROCUREMENT**

The first of the two options would be to have a separate procurement for the PIPP load. The following are key procurement parameters to minimize the additional cost of the procurement while giving it the best chance to acquire commitments to serve PIPP load below the SSO price.

* **Aggregation** – Each utility would conduct a separate process in order to allow for easier transition away from the current contracts and to provide more flexibility in design choice for each utility.
* **Timing** – Bidding would happen on the same days as the SSO auctions.
* **Procurement Plan** – The schedule of bidding and bid plans would be the same as the utilities’ currently approved SSO procurement plans. Therefore, if a current plan called for 17 percent of SSO supply to be bid out under two-year contracts on a given day, the utility would also offer 17 percent of PIPP load under two-year contracts for the same time period.
* **Effect on Existing Contracts** – There would be no change to existing SSO supply contracts. Instead, PIPP supply would be transitioned off via these new procure­ments.
* **Load separation** – The PIPP load will be broken into 100 tranches, just like the SSO load. If the Ohio utilities decide that this makes the tranches too small to administer, then larger tranche sizes could be used.
* **Load Caps** –Load capswould be thesameas currently used in the SSO auctions presuming that it is feasible to break the load into 100 tranches. If not, then the utility may define a load cap that is as similar as possible to those used in the SSO auctions given the number of PIPP tranches bid out.
* **Product & Contract –** The PIPP product would be a load-following full require­ments product, akin to the SSO product. The contract will have equivalent provi­sions as the SSO contract, and be executed between the PIPP supplier and each utility. However, because PIPP tranches would be smaller than current SSO tranches, the Independent Credit Requirement (ICR) should be lowered for PIPP supply in a roughly proportional manner.
* **Qualification** – Anyone qualified to bid in the SSO auction could bid in the PIPP auction. Ohio law requires that bidders must be certified under section 4928.08 – which requires suppliers to be certified by the PUCO and meet minimum capabil­ity standards. This is already accomplished under the current Supplier Master Agreements, which require suppliers to be duly organized, in good standing, and qualified to conduct business in Ohio. In addition, suppliers should be able to qualify to bid only in the PIPP auctions in order to provide the opportunity for smaller participants to compete and thus, potentially, resulting in lower prices. The only qualification requirements that should be amended for the PIPP auction are requirements that relate directly to the number of tranches offered – since a tranche of PIPP load would be smaller than a tranche of SSO load. This would affect at least two areas:
* *Pre-bid security*: During qualification, bidders would be required to specify the maximum number of PIPP tranches they wish to offer (again, presuming the utility is able to break the PIPP load into multiple tranches). For each tranche they wish to offer, bidders would provide pre-bid security, just as they currently do for SSO tranches. However, with PIPP tranches being much smaller, the amount of security needed should be reduced.
* *Credit-based tranche caps:* By the same rationale, another necessary revision may entail raising the credit-based tranche caps so, for exam­ple, a bidder with an S&P rating below BB- could offer up to 50 PIPP tranches (compared to 5 SSO tranches under the current rules).

PUCO Staff recommends that the auction itself be a simple process. First, the descending-clock SSO auction would run as normal, with bidders offering tranches in a round-by-round process until supply equals demand and a winning market price is estab­lished. Then, the auction would enter the PIPP-bidding phase. This would be a set amount of time during which all qualified bidders could submit sealed offers for each tranche of PIPP load. Bidders would have to price each tranche below the average win­ning SSO price and the least-expensive offers would be taken to fill the PIPP need. The timing of the bid window could be flexible and extend as far as noon the following day, to ensure that PIPP-only bidders would get a chance to review the SSO price and formu­late an offer. If the procurement did not attract enough supply to meet its target, the unfilled need could be satisfied through the next scheduled auction, a subsequent reserve auction, or through the market.

**OPTION TWO – ADMINISTRATIVE DISCOUNT**

The second of the two proposed options is the “administrative discount” method. In this option, current procurement methods would be kept for SSO load: SSO suppliers would still compete for an obligation to supply SSO load via a descending clock auction. The only change that would be made is that suppliers fulfilling PIPP load would receive an administratively-set discounted rate for any PIPP load supplied.[[2]](#footnote-2)

**CONCLUSION**

Staff, after consultation with Boston Pacific, presents two potential approaches to enact the Ohio law on forthcoming PIPP procurement. While both options are issued for informed decision-making, PUCO Staff respectfully recommends the adoption of Option 1, as described above, for all Ohio utilities, beginning with the March 14, 2016 and March 29, 2016 auctions for Duke Energy Ohio, Inc. and Ohio Power Company, respectively.

Respectfully submitted,

/s/ Thomas W. McNamee

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**On behalf of the Staff of**

**The Public Utilities Commission of Ohio**

1. R.C. 4928.54, 4928.541. 4928.542. 4928.543, and 4928.544. [↑](#footnote-ref-1)
2. For instance, with an administratively-set discount rate of 2%, if the winning SSO bid price was $50/MWh, suppliers would receive $49/MWh for any PIPP load supplied. [↑](#footnote-ref-2)