

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Review of The)	
Uniform Purchases Gas Adjustment)	Case No. 18-1291-GA-ORD
Clause Rules in Chapter 4901:1-14 of)	
the Ohio Administrative Code		

**COMMENTS
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

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I. INTRODUCTION

The uniform purchased gas adjustment clause or Gas Cost Recovery (“GCR”) rules in Ohio Adm. Code 4901:1-14 are the subject of a mandatory five-year review. The PUCO is to promote “reasonably priced natural gas services and goods,” under R.C. 4929.02(A)(1). The Office of the Ohio Consumers’ Counsel (“OCC”) recommends amending these rules to protect consumers with reasonably priced natural gas.

The GCR establishes a specific cost collection mechanism from customers that separates natural gas commodity procurement costs from all other costs incurred by the gas utilities to provide distribution service to customers. The rules also establish processes and procedures that provide for periodic reports, investigations, audits, and hearings for review of gas utilities’ gas production and purchasing policies and the accuracy of their gas cost recovery rates.

As part of its five-year review of these rules, the PUCO is seeking comment on changes to the rules proposed by the PUCO Staff. The PUCO Staff is recommending only minor non-substantive changes to the rules to provide additional clarity and correct typographical errors. OCC supports the PUCO Staff’s proposed changes to the rules.

But more substantive changes are necessary and appropriate to protect Ohioans from paying unnecessarily high natural gas costs. The OCC submits these Comments recommending that the GCR continue unchanged for smaller gas utilities serving fewer than 100,000 residential customers. However, OCC suggests rule changes that will improve consumer protection and the PUCO's processes for procuring and pricing natural gas supply to consumers for gas utilities that serve more than 100,000 customers. A gas utility that has not yet transitioned to a competitively bid standard offer (which is Duke Energy Ohio, Inc. ("Duke")) should transition from a GCR to the procurement of natural gas supply through a competitive auction process. Through an auction process, a standard service offer ("SSO") rate will be established for prices that customers will pay for their natural gas supply. OCC's recommendations will, among other things, help protect consumers from paying higher than just and reasonable prices for natural gas service. The PUCO should adopt OCC's proposed changes to the rules.

II. RECOMMENDATIONS

- A. All larger gas utilities (those serving 100,000 or more customers) in this state should procure and price natural gas supply for consumers through a wholesale auction and standard service offer ("SSO"), except that the PUCO may allow natural gas utilities that currently have a standard choice offer ("SCO") to continue with that offer.**

Presently, three of the four large gas utilities in the state (Columbia Gas of Ohio, Inc. or "Columbia," Dominion East Ohio Energy or "Dominion," and Vectren Energy Delivery of Ohio or "Vectren") procure and price their gas supplies via a competitive auction process. The only large company that still utilizes the gas cost recovery ("GCR") mechanism for gas supply and pricing as discussed in the rules in this case is Duke. In a Stipulation and Recommendation filed on February 28, 2008 and approved by the PUCO

on May 28, 2008 in Case No. 07-589-GA-AIR, *et al.*, (“2007 Rate Case”), Duke agreed to form a collaborative process or working group to explore the possibility of implementing an auction to supply the SSO. Duke agreed to report the findings of the working group to the PUCO within one year.¹ On May 27, 2009, Duke filed its report (“2009 Report”).

In the 2009 Report, Duke suggested that the fundamental question was “whether a customer is better off under the current system [using the GCR mechanism], or under a system based on an auction process.”² Based largely on evidence that its then recent and historical GCR rates were lower than the auction prices obtained by Dominion and Vectren (Columbia was not utilizing an auction at that time), Duke concluded that customers were better off with its GCR process rather than an SSO auction. Therefore, Duke concluded that it was in the best interest of its customers to maintain the status quo and keep its CGR mechanism.³ The PUCO did not formally respond to Duke’s 2009 Report and associated recommendations in the 2007 Rate Case docket, but Duke has continued to use the GCR pricing mechanism for natural gas since.

While Duke’s conclusion nine years ago may have been reasonable at that time, this does not mean that consumers are better off today paying for Duke’s gas costs (under GCR) as opposed to paying gas costs set through a competitive auction. Recent and historical evidence suggest that customers pay less for natural gas through competitive

¹ *In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Gas Rates*, Case No. 07-589-GA-AIR, Stipulation and Recommendation (February 28, 2008) at 20-21. (2007 Rate Case) 2007 Rate Case Stipulation).

² 2007 Rate Case, Duke Energy Ohio Inc.’s Report to the Public Utilities Commission of Ohio Regarding Findings of the Natural Gas Collaborative (May 27, 2009) at 2.

³ *Id.*, at 7-8

auctions. In the most recent Management and Performance Audit of Gas Purchasing Practices and Policies (“MPA”) for Duke in Case No. 15-218-GA-GCR, the retained MPA auditor, Exeter Associates (“Exeter”) noted that the other three “major” gas utilities utilize a competitive auction process rather than a GCR mechanism. Exeter produced a table comparing Duke’s GCR rates to the other companies’ competitively bid SSO rates for the twelve months ended in August for years 2013-2015. Here is that comparison:

OCC Table 1.				
Exeter Comparison of Duke GCR Rates to Other Ohio Utilities 12 Months Ended August (\$/Mcf)				
Company	2013	2014	2015	Average
Columbia	4.8140	5.7839	4.5984	5.0654
Dominion	4.5264	5.0725	3.6868	4.4286
Vectren	4.6505	5.6003	4.7852	5.0120
Other Companies’ Avg.	4.6636	5.4856	4.3568	4.8353
Duke	4.9336	5.4350	5.1373	5.1686
Difference Above/(Below)	0.2700	(0.0506)	0.7805	0.3333

While the GCR may have provided slightly lower prices on average than the auction prices for the other large gas utilities in 2014, Duke customers paid on average considerably more in 2013 and 2015. Carrying Exeter’s analysis forward, OCC utilized data provided on the PUCO’s website for historical GCR and SSO pricing for development of the Apples-to-Apples price comparison charts to compare Duke’s GCR rates to the other utilities’ SSO rates for calendar years 2015 through November 2018.

<p style="text-align: center;">OCC Table 2.</p> <p style="text-align: center;">Comparison of Duke GCR Rates to Other Ohio Utilities Calendar Years 2015 Through November 2018 (\$/Mcf)</p>					
Company	2015	2016	2017	2018	Average
Columbia	3.9825	3.8542	4.5533	4.2286	4.1547
Dominion	2.9025	2.4267	3.0958	2.9618	2.8467
Vectren	3.9158	3.8158	4.3792	4.0500	4.0402
Other Companies' Avg.	3.6003	3.3656	4.0094	3.7468	3.6805
Duke	4.7733	4.1208	4.8000	4.5682	4.5656
Difference Above/(Below)	1.1730	0.7552	0.7906	0.8214	0.8851

The sum of these tables demonstrates that Duke's GCR rates in all years but 2014 has exceeded the average SSO rate for the other natural gas utilities in the state. And on average, Duke GCR customers are paying a lot more. If, for example, Duke's GCR rates are compared to other utilities' SSO rates other utilities' SSO rates have produced far better results for consumers. For this reason, the PUCO should discard the GCR for all larger gas utilities, including Duke.

As a result, OCC recommends modifying the Applicability section of rules in this case as follows:

4901:1-14-03 Applicability

The provisions of this chapter shall apply to all gas and natural gas companies subject to the jurisdiction of the commission companies that provide service to fewer than 100,000 customers in this state except as provided in divisions (C)(4) and (D) of section 4905.302 of the Revised Code, with respect to all schedules of rates established or approved by the commission, including, but not limited to, rate schedules approved or established under sections 4905.31, 4909.19, and 4909.39 of the Revised Code. The provisions of this chapter shall not apply to gas or natural gas companies that provide service to more than 100,000 customers in this state or to municipal ordinance rates established under section 743.26 or 4909.34 of the Revised Code or Article XVIII, Section 4 of the Ohio Constitution, except in instances where a municipal

adopts, by reference or otherwise, rates established by the commission.

OCC then recommends inserting a new rule immediately after Rule 4901:1-14-03 mandating that all gas or natural gas companies serving more than 100,000 customers in this state use a wholesale SSO auction to procure and price gas supply for their customers. All remaining rules should be renumbered accordingly. The new Rule 4901:1-14-04 should read:

4901:1-14-04 Wholesale standard service offers for companies serving 100,00 or more customers.

Each gas or natural gas company subject to the jurisdiction of the commission that provides service to 100,000 or more customers shall procure and price gas supply service through a wholesale auction and related standard service offer under policies and procedures adopted by the commission, except that the PUCO may allow natural gas utilities that currently have a standard choice offer to continue with that offer.

The PUCO should adopt OCC's proposed Rule 4901:1-14-04 to protect consumers and provide them with the lowest feasible price for natural gas service.

- B. For customers who choose to obtain their natural gas supply from the gas utility, a wholesale auction should be used to establish the price for the SSO (or SCO for utilities that currently have a SCO and are allowed to continue it).**

OCC recommends that the SSO price for gas supply should be established via a wholesale auction rather than a retail auction. Columbia, Dominion, and Vectren currently offer a Standard Choice Offer ("SCO") where an auction is conducted, and winning bidders provide natural gas to serve customers. The marketers name and other contact information is listed on the natural gas bill along with the SCO price.

The reason to move away from wholesale-type auctions was to facilitate movement of customers into the retail market where marketers, ostensibly, would offer

customers better prices and value-added services. The problem is that these better prices and value-added services have largely not materialized. A review of the PUCO's Apples-to-Apples price comparison chart reveals that only a small handful of marketer offers to customers are lower than the local utilities SCO rate. And, of the offers that are lower than the SCO price, almost all are short term "teaser" type rates that offer consumers no long-term assurance that the offered price will continue to be better than the SCO price.

Further, if customers are enticed into these short-term contracts, then they must specifically contact their local utility to return to the SCO or, in Dominion's service area they are randomly placed on a market variable rate that can be considerably higher than the SCO rate. To protect customers, the competitive SSO wholesale auction is preferable to the SCO approach and should be adopted by the PUCO in the rules in this case.

- C. If the PUCO continues to permit natural gas utilities serving more than 100,000 customers to price natural gas supply through a GCR, the PUCO should require that auditors who perform periodic management performance audits verify that the procurement planning of the gas utility is sufficient to enable reliable service at optimal prices where prices would be at least as favorable for customers as procurement through a competitive wholesale auction.**

If the PUCO does not accept OCC's above recommendations, then the PUCO should require the management performance audits under Rule 4901:1-14-07 (D)(2) to compare the reliability and pricing of the GCR to the pricing available under an SSO auction, where prices would be at least as favorable for customers as procurement through a competitive wholesale auction. Such instructions would be consistent with the

existing rule's language regarding determining if a utility's procurement planning is sufficient to ensure reliable service at **optimal prices**⁴ (emphasis supplied).

III. CONCLUSION

The PUCO rules in Ohio Adm. Code 4901:1-14 should be modified to limit the pricing of natural gas supply through the GCR to only natural gas utilities who serve fewer than 100,000 residential customers. Three of the four larger gas utilities in the state currently procure natural gas through a competitive auction process. The competitive SSO auction process has proven over time to be a conservative option for residential consumers who are busy with hectic lifestyles caring for families and careers. The auction process has provided lower cost natural gas for consumers served by larger utilities. The PUCO should protect consumers and require competitive auctions for the supply of natural gas through a SSO for natural gas utilities serving more than 100,000 residential customers (except where utilities are allowed to continue their standard choice auctions).

⁴ Ohio Adm. Code 4901:1-14-07(D)(2).

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of these Comments was served on the persons stated below via electronic transmission, this 9th day of November 2018.

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