# BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	) ) )	Case No. 17-0032-EL-AIR
In the Matter of the application of Duke Energy Ohio, Inc., for Tariff Approval.	)	Case No. 17-0033-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods.	)	Case No. 17-0034-EL-AAM
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Modify Rider PSR.	) ) )	Case No. 17-0872-EL-RDR
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Amend Rider PSR.	) ) )	Case No. 17-0873-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods.	) ) )	Case No. 17-0874-EL-AAM
In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service.	) ) ) )	Case No. 17-1263-EL-SSO
In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Amend Its Certified Supplier Tariff, P.U.C.O. No. 20.	) ) )	Case No. 17-1264-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Defer Vegetation Management Costs	)	Case No. 17-1265-EL-AAM

In the Matter of the Application of Duke	)	
Energy Ohio, Inc. to Establish Minimum	)	
Reliability Performance Standards	)	Case No. 16-1602-EL-ESS
Pursuant to Chapter 4901:1-10, Ohio	)	
Administrative Code.	)	

# MEMORANDUM CONTRA INTERSTATE GAS SUPPLY, INC'S APPLICATION FOR REHEARING BY THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

#### I. INTRODUCTION

In its application for rehearing, Interstate Gas Supply, Inc. ("IGS") has asserted that the Opinion and Order of the Public Utilities Commission of Ohio ("PUCO") is wrong because it does not allow IGS to gain a competitive advantage over the standard service offer ("SSO"). It has provided the PUCO with neither factual nor legal reason to do so. It cannot. The SSO is vital to consumers. To protect consumers, the PUCO should reject IGS's application for rehearing.

#### II. RECOMMENDATIONS

A. The PUCO should reject IGS's assignments of error related to its proposal for "unbundling" standard service offer costs for the same reasons it did so in the Order.

IGS asserted six assignments of error related to its proposal to "unbundle" SSO costs. Though these assignments of error all include different legal arguments, they are merely variants on the same theme: IGS wants SSO customers to pay more for distribution service so that IGS can gain an unfair competitive advantage over the SSO.

<sup>&</sup>lt;sup>1</sup> Application for Rehearing and Memorandum in Support of Interstate Gas Supply, Inc. at 6-7 (Jan. 18, 2019) (the "IGS AFR") (assignments of error A through F).

The PUCO should reject IGS's assignments of error, just as it did in its December 19, 2018 Opinion and Order (the "Order").

i. The record supports a factual conclusion that there is no subsidy. All of IGS's assignments of error depend on the existence of a subsidy, so they all fail for this reason alone.

IGS complains that SSO customers are receiving an unlawful subsidy from shopping customers as a result of the PUCO's failure to adopt IGS's "unbundling" proposal.<sup>2</sup> But for there to be an unlawful subsidy, there must be first be a subsidy. And the evidence does not support the existence of any subsidy.

The only evidence that there is any subsidy at all is the testimony of IGS witness Edward Hess.<sup>3</sup> But the mere fact that Mr. Hess testified that there is a \$23 million subsidy does not make it so. The PUCO is not required to adopt Mr. Hess's opinion as a finding of fact, and indeed, it did not. Nor should it have—Mr. Hess's testimony regarding the alleged subsidy was deeply flawed and unreliable.

Mr. Hess's testimony relies on the flawed belief that some distribution costs pertain exclusively to the SSO and thus should be paid exclusively by SSO customers. But even if one were to adopt this erroneous view, the flip side would be that some distribution costs pertain exclusively to shopping and thus should be paid exclusively by shopping customers. Mr. Hess calculates \$23.1 million in SSO-related distribution costs to be assigned exclusively to SSO customers, but he claims that there are \$0 in shopping-

<sup>&</sup>lt;sup>2</sup> See IGS AFR.

see ios afk.

related costs that should be assigned exclusively to shopping customers.<sup>4</sup> This makes no sense.

For example, one of Mr. Hess's prime examples of an alleged cost that should be allocated exclusively to SSO customers is call center costs.<sup>5</sup> According to Mr. Hess, when a customer calls Duke to complain about the SSO, the costs that Duke incurs responding to that call should be paid only by SSO customers.<sup>6</sup> But on the flip side, Mr. Hess did not testify that shopping customers should pay call center costs related to shopping customers calling the utility call center, and he did not propose reallocating any such costs to shopping customers.<sup>7</sup> This inconsistency highlights an approach that provides an unfair result that benefits Marketers at the expense of SSO customers.

Further, Mr. Hess demonstrated that he knows very little about these costs in the first place and is unqualified to opine on them. For example, despite making claims about how Duke handles calls, he did not even speak to Duke about its call-center policies, so his claims are pure speculation. Nor did he have personal knowledge about Marketers' corresponding call center policies, as he relied entirely on hearsay from IGS without verifying whether IGS's policy is the same as other Marketers. He knew nothing about how many calls Duke gets about the SSO or shopping, how much time Duke spends responding to calls about the SSO or shopping, how many calls Marketers get about

<sup>&</sup>lt;sup>4</sup> Hess Testimony at Exhibits JEH-1, JEH-2.

<sup>&</sup>lt;sup>5</sup> Hess Testimony at 7:1-18, 12:3-8.

<sup>&</sup>lt;sup>6</sup> Tr. Vol. VI at 1158:1-5 ("Q. And your testimony is that when a customer calls Duke to complain about the SSO, the costs involved in responding to that complaint should be paid only by SSO customers, is that right? A. Yes.").

<sup>&</sup>lt;sup>7</sup> Hess Testimony at Exhibit JEH-2.

<sup>&</sup>lt;sup>8</sup> See Hearing Transcript at Vol. VI, p. 1131:14-16.

<sup>&</sup>lt;sup>9</sup> *Id.* at p. 1161:8-21.

distribution service or shopping. <sup>10</sup> In short, Mr. Hess speculated about certain costs, used that speculation to justify \$23 million in additional charges to SSO customers, but made no effort to substantiate the underlying basis for his proposal.

IGS also inaccurately claims in its application for rehearing that "[n]o other quantitative estimate of the SSO subsidy was provided in this case." This is both false and irrelevant. First, OCC witness Willis testified that there is no subsidy. Thus, he quantitatively calculated the SSO subsidy at \$0. IGS's implication that Mr. Hess's testimony was unrebutted is false. Second, even if Mr. Hess were the only witness to quantify the alleged subsidy, that does not mean that the PUCO is required to adopt his opinion. The PUCO could simply reject his testimony based on its many flaws and conclude that the record is completely devoid of reliable evidence that there is a subsidy.

The PUCO should reject Mr. Hess's testimony because it is flawed and unreliable. Thus, the PUCO has no basis to conclude, as a matter of fact, that there is any subsidy. And if there is no subsidy, then there can be no unlawful subsidy. All of IGS's "unbundling" assignments of error depend on the existence of a subsidy. There being none, all of IGS's unbundling assignments of error fail.

ii. IGS's "unbundling" assignments of error are based on the flawed premise that Duke, by providing distribution service to customers who happen to be SSO customers, is providing competitive services.

Duke provides distribution service to SSO customers, and it provides distribution service to shopping customers. When it delivers electricity to these customers, it is

<sup>&</sup>lt;sup>10</sup> *Id.* at 1131:18-1132:3, 1160:6-11.

<sup>&</sup>lt;sup>11</sup> IGS AFR at 34.

<sup>&</sup>lt;sup>12</sup> OCC Ex. 22 at 7:11-13.

providing a regulated, noncompetitive service to those customers, regardless of whether they are SSO customers or shopping customers.

The underlying premise behind IGS's "unbundling" proposal, however, is that Duke, merely by providing distribution service to SSO customers, is providing a competitive service that must be paid for separate and apart from distribution costs. 

This premise is false. By declining to adopt IGS's proposal, the PUCO would in no way be regulating or providing compensation for competitive services through distribution rates.

Duke's base distribution charges relate exclusively to non-competitive services. IGS witness Hess's own analysis demonstrates this. In calculating the amount that he proposes to shift to SSO customers, he bases his analysis on various distribution-related FERC accounts. <sup>14</sup> Notably, he does not claim that the expenses in these accounts should be included in Duke's electric security plan.

If Mr. Hess believed that the costs in question were costs for competitive services, then he would have testified that it was wholly improper to include them in distribution-related FERC accounts in the first place. But he does not challenge Duke's inclusion of these costs in distribution accounts. This fatally undermines IGS's presumption that the Order would result in competitive costs being included in non-competitive distribution rates.<sup>15</sup>

IGS is right that the PUCO should not charge customers for competitive services through monopoly distribution rates. But in this case, the distribution rates approved in

<sup>14</sup> Hess Testimony at Exhibit JEH-2.

6

<sup>&</sup>lt;sup>13</sup> IGS AFR at 25-27.

<sup>&</sup>lt;sup>15</sup> IGS Brief at 19-22.

the Order do not include charges for competitive services. <sup>16</sup> Under the Order, customers would not be paying for non-distribution-related services through base distribution rates.

iii. The standard service offer benefits all customers. All customers should pay the distribution costs associated with it.

IGS proposes that distribution costs be shifted from shopping customers to SSO customers based on the theory that certain distribution costs are related exclusively to the SSO.<sup>17</sup> This proposal fails for a fundamental reason: as OCC Witness Willis explained, all customers benefit from the existence of the SSO, so it is just and reasonable for all SSO-related distribution costs to be allocated to the distribution function and paid by all customers.<sup>18</sup>

Duke is required by law to provide a standard service offer: "[A]n electric distribution utility shall provide consumers, on a comparable and nondiscriminatory basis within its certified territory, a standard service offer of all competitive retail electric services to maintain essential electric service to customers, including a firm supply of electric generation service." This statute is unambiguous: the SSO must be available to all customers, all the time. It serves as the default service for those customers who do not want to shop, and it provides a safety net for customers when their supplier fails to

<sup>&</sup>lt;sup>16</sup> Of course, as OCC has demonstrated repeatedly here and in its initial brief, the Settlement would result in unlawful charges to distribution customers for Duke's interest in OVEC, which is a competitive service. But those charges would be through a rider in Duke's ESP, not through base distribution charges.

<sup>&</sup>lt;sup>17</sup> IGS Initial Brief at 16-24; RESA Initial Brief at 3-4; *see also* RESA/IGS Ex. 1 (the "Hess Testimony") at 4:7-5:3, Exhibit JEH-1.

<sup>&</sup>lt;sup>18</sup> OCC Ex. 22 (the "Willis Testimony") at 6:17-7:4.

<sup>&</sup>lt;sup>19</sup> R.C. 4928.141(A).

provide service for any reason, including the supplier's bankruptcy.<sup>20</sup> This undeniably benefits even those customers who shop, because they could, at any moment, need or want to revert to the SSO.

OCC Witness Willis described various ways in which the standard service offer benefits both shopping and non-shopping customers (many of which were also identified in the PUCO Staff's Initial Brief<sup>21</sup>):

- Non-shopping customers receive electric service that is competitively bid. 22
- Customers have an option to receive generation service without engaging in the "time-consuming and sometimes confusing process of selecting an alternative supplier."<sup>23</sup>
- The standard service offer is a safety net for all customers, including shopping customers, who need a generation option when their supplier defaults.<sup>24</sup>
- The standard service offer provides the benefit of a "competitive price-to-compare that customers can use to evaluate marketer offers when deciding whether to shop for their generation."<sup>25</sup>

As OCC Witness Willis succinctly concluded "all customers (shoppers and non-shoppers) benefit from the standard service offer. As such, all customers should share in the costs of providing and administering the standard service offer."<sup>26</sup>

<sup>&</sup>lt;sup>20</sup> R.C. 4928.14 ("The failure of a supplier to provide retail generation service to customers within the certified territory of an electric distribution utility shall result in the supplier's customers, after reasonable notice, defaulting to the utility's standard service offer...").

<sup>&</sup>lt;sup>21</sup> PUCO Staff Initial Brief at 59-60.

<sup>&</sup>lt;sup>22</sup> Willis Testimony at 7:16-17.

<sup>&</sup>lt;sup>23</sup> *Id.* at 7:16-19.

<sup>&</sup>lt;sup>24</sup> *Id.* at 6:19, 7:20-22.

<sup>&</sup>lt;sup>25</sup> Id. at 7:22-8:2.

<sup>&</sup>lt;sup>26</sup> *Id.* at 8:2-5. *See also* Duke Initial Brief at 59 (stating that it would be inappropriate to adopt the Marketers' recommendation because the SSO is available to all customers).

This should be both the beginning and the end of the PUCO's analysis of this issue. All customers benefit from the statutorily-required SSO, so distribution costs that Duke incurs to provide a standard service offer should be paid by all customers. This alone should convince the PUCO to deny the Marketers' unfair plan to artificially increase the costs that SSO customers pay for distribution service.

# III. CONCLUSION

Protecting the SSO – available to all consumers, all the time, no matter what – should be at the forefront of the PUCO's consideration. IGS's application for rehearing asks the PUCO to go in a different direction. It seeks a regulated competitive advantage. The PUCO should not bite, and IGS has certainly not provided any law or evidence that it should. The PUCO should reject IGS's application for rehearing.

Respectfully submitted,

Bruce Weston (0016973) Ohio Consumers' Counsel

/s/ William J. Michael
William J. Michael (0070921)
Counsel of Record
Christopher Healey (0086027)
Assistant Consumers' Counsel

# Office of the Ohio Consumers' Counsel

65 East State Street, 7<sup>th</sup> Floor Columbus, Ohio 43215-4213 Telephone [Michael]: (614) 466-1291 Telephone [Healey]: (614) 466-9571 william.michael@occ.ohio.gov Christopher.healey@occ.ohio.gov (will accept service via email)

### **CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing Memorandum Contra Application for Rehearing has been served upon the below-named persons via electronic transmission this 28<sup>th</sup> day of January 2019.

/s/ William J. Michael
William J. Michael
Assistant Consumers' Counsel

#### **SERVICE LIST**

#### Case No. 17-0872-EL-RDR et al.

Steven.beeler@ohioattorneygeneral.gov
cmooney@ohiopartners.org
mkurtz@BKLlawfirm.com
kboehm@BKLlawfirm.com
jkylercohn@BKLlawfirm.com
dborchers@bricker.com
dparram@bricker.com
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
glover@whitt-sturtevant.com
rsahli@columbus.rr.com
mleppla@theoec.org
tdougherty@theOEC.org

#### Case No. 17-0032-EL-AIR et al.

Steven.beeler@ohioattorneygeneral.gov
Robert.eubanks@ohioattorneygeneral.gov
cmooney@ohiopartners.org
mfleisher@elpc.org
fdarr@mwncmh.com
mpritchard@mwncmh.com
paul@carpenterlipps.com
mleppla@theOEC.org
tdougherty@theOEC.org
dborchers@bricker.com
dparram@bricker.com
whitt@whitt-sturtevant.com
glover@whitt-sturtevant.com

Jeanne.kingery@duke-energy.com
Elizabeth.watts@duke-energy.com
Rocco.dascenzo@duke-energy.com
chris.michael@icemiller.com
Mike.Mizell@icemiller.com
Kay.pashos@icemiller.com
Camal.Robinson@duke-energy.com
fdarr@mwncmh.com
mpritchard@mwncmh.com
Bojko@carpenterlipps.com
perko@carpenterlipps.com
paul@carpenterlipps.com
joliker@igsenergy.com
kboehm@BKLlawfirm.com

Jeanne.kingery@duke-energy.com
Elizabeth.watts@duke-energy.com
Rocco.dascenzo@duke-energy.com
chris.michael@icemiller.com
Mike.Mizell@icemiller.com
Kay.pashos@icemiller.com
Camal.Robinson@duke-energy.com
mkurtz@BKLlawfirm.com
kboehm@BKLlawfirm.com
jkylercohn@BKLlawfirm.com
joliker@igsenergy.com
eakhbari@bricker.com
nhewell@bricker.com
mdortch@kravitzllc.com

mjsettineri@vorys.com glpetrucci@vorys.com talexander@calfee.com jlang@calfee.com slesser@calfee.com talexander@calfee.com mkeaney@calfee.com Bojko@carpenterlipps.com dressel@carpenterlipps.com mnugent@igsenergy.com swilliams@nrdc.org daltman@environlaw.com jnewman@environlaw.com jweber@environlaw.com rdove@attorneydove.com

#### Case No. 17-1263-EL-SSO et al.

Steven.beeler@ohioattorneygeneral.gov fdarr@mwncmh.com mpritchard@mwncmh.com mkurtz@BKLlawfirm.com ikylercohn@BKLlawfirm.com cmooney@ohiopartners.org Bojko@carpenterlipps.com dressel@carpenterlipps.com slesser@calfee.com ilang@calfee.com talexander@calfee.com mkeaney@calfee.com eakhbari@bricker.com nhewell@bricker.com paul@carpenterlipps.com whitt@whitt-sturtevant.com campbell@whitt-sturtevant.com glover@whitt-sturtevant.com rsahli@columbus.rr.com tony.mendoza@sierraclub.org

# **Case No. 16-1602-EL-ESS**

<u>Thomas.lindgren@ohioattorneygeneral.gov</u> <u>Elizabeth.watts@duke-energy.com</u>

Stacie.cathcart@puc.state.oh.us Nicholas.walstra@puc.state.oh.us

Jeanne.kingery@duke-energy.com Elizabeth.watts@duke-energy.com Rocco.dascenzo@duke-energy.com chris.michael@icemiller.com Mike.Mizell@icemiller.com Kay.pashos@icemiller.com Camal.Robinson@duke-energy.com charris@spilmanlaw.com dwilliamson@spilmanlaw.com lbrandfass@spilmanlaw.com mfleisher@elpc.org tdougherty@theOEC.org mleppla@theOEC.org joliker@igsenergy.com mnugent@igsenergy.com dborchers@bricker.com dparram@bricker.com mjsettineri@vorys.com glpetrucci@vorvs.com mdortch@kravitzllc.com sean.mcglone@ohiohospitals.org

This foregoing document was electronically filed with the Public Utilities

**Commission of Ohio Docketing Information System on** 

1/28/2019 3:55:41 PM

in

Case No(s). 17-0032-EL-AIR, 17-0033-EL-ATA, 17-0034-EL-AAM, 17-0872-EL-RDR, 17-0873-EL-ATA,

Summary: Memorandum Memorandum Contra Interstate Gas Supply, Inc's Application for Rehearing by the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Michael, William J. Mr.