

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Procurement of Standard Service Offer Generation for Customers of Ohio Power Company	) ) )	Case No. 17-2391-EL-UNC
In the Matter of the Procurement of Standard Service Offer Generation for Customers of the Dayton Power and Light Company	) ) ) )	Case No. 17-0957-EL-UNC
In the Matter of the Procurement of Standard Service Offer Generation for Customers of Duke Energy Ohio, Inc.	) ) )	Case No. 18-6000-EL-UNC
In the Matter of the Procurement of Standard Service Offer Generation as Part of the Fourth Electric Security Plan for Customers of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	) ) ) ) ) ) ) )	Case No. 16-0776-EL-UNC

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**JOINT COMMENTS OF INTERSTATE GAS SUPPLY, INC. AND DIRECT ENERGY  
BUSINESS, LLC AND DIRECT ENERGY SERVICES, LLC**

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Ohio law requires each of the four Ohio electric distribution utilities (“EDUs”) to provide a standard service offer (“SSO”) of “all competitive retail electric services necessary to maintain essential electric service to consumers, including a firm supply of electric generation service.” R.C. 4928.141. The law does not require the SSO to be a multiyear product or to be established by an auction—it simply requires the EDUs to make a basic offering of generation service available for customers that do not shop.

Through various electric security plan cases, the Commission has authorized each of the four EDUs to establish the SSO price through a series of staggered and laddered

auctions that cover one or more years. Under this process, auction bidders specify a price at which they are willing to provide a full requirements product that consists of capacity, energy, and ancillary services. Capacity prices have been historically established three years in advance by the PJM Interconnection, LLC (“PJM”) Reliability Pricing Model (“RPM”) Base Residual Auction. Some have criticized the Base Residual Auction for its administrative nature and the absence a liquid secondary market for capacity outside of the auction. But it has historically provided a transparent forward price signal three years in advance of a delivery year.

That trend, however, recently ceased following the Federal Energy Regulatory Commission’s (“FERC”) determination that the capacity market rules were no longer providing just and reasonable rates.<sup>1</sup> While the FERC identified a problem, it failed, however, to authorize a solution in sufficient time to hold auctions and set prices for delivery years beyond May of 2022. It has since done so,<sup>2</sup> but PJM’s compliance tariffs are yet to be approved. The auction is not likely to be held until late in 2020 or early 2021, assuming timely action on PJM’s compliance tariffs.

Given the perceived uncertainty regarding capacity prices that provide a component of an auction bidders cost structure, through various entries, the Commission directed its Staff to make a recommendation to modify the EDUs’ SSO auction product such that auction winners may “pass through” their capacity costs to default service customers. The Commission Staff alleges that a pass through should be authorized

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<sup>1</sup> See *PJM Interconnection, L.L.C.*, 163 FERC ¶ 61,236, Order Rejecting Proposed Tariff Revisions, Granting in Part and Denying in Part Complaint, and Instituting Proceeding Under Section 206 of the Federal Power Act (June 29, 2018).

<sup>2</sup> See *PJM Interconnection, L.L.C.*, 169 FERC ¶ 61,239, Order Establishing Just and Reasonable Rate (Dec. 19, 2019).

because it is “nearly impossible for bidders to offer a full requirements product into such auctions without absorbing an unacceptable amount of risk.”<sup>3</sup>

While the Staff’s proposal and concerns are well intentioned, Interstate Gas Supply, Inc. (“IGS”) and Direct Energy Business, LLC and Direct Energy Services, LLC (collectively, “Direct”) disagree that the Commission should disrupt the current auction structure. The challenges identified by the Staff are not relevant only to the EDUs. Competitive retail electric service (“CRES”) providers face the exact same issue when setting prices for future years. Therefore, it would distort the competitive market to insulate SSO auction bidders from the risk associated with unknown capacity prices. Moreover, the Staff’s proposal would arbitrarily and unreasonably provide preferential treatment to the SSO product in a time when all market participants must address the same challenge.

To the extent that the Commission feels it is necessary to modify the auction process—something that is not necessary—it should compress the SSO product to the timeframe that capacity prices are known. Nothing requires the EDUs to provide a multiyear product. And the Commission should not bend over backwards to do so and in the process wholly insulate one product from the risk that all other entities must face.

Moreover, although PJM capacity auction clearing prices may not be known, physical generation resources are in fact selling capacity to load serving entities for delivery years that are not known. Based upon this fact, CRES providers are able to contract with generation resources bilaterally to lock in a capacity price and provide fixed rate certainty to customers for at least three years into the future. If CRES providers are

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<sup>3</sup> Staff Proposal and Recommendation at 3 (Mar. 13, 2020).

able to contend with this risk and provide a fixed-rate product for time periods when PJM has not established capacity prices, the SSO auction bidders should be able to as well. Since there is a functional secondary market for capacity, there is simply no need to modify the current auction structure and transfer the capacity price risk away from auction bidders and onto customers.

Indeed, many have historically criticized the lack of a liquid secondary market for capacity. Now that one has formed, it should be embraced. Holding the SSO auctions without modification would place additional confidence in the secondary capacity market and encourage transactions between willing buyers and sellers—a policy that has successfully guided the natural gas market without the need for regional transmission organizations—rather than relying entirely on the PJM capacity market. The Commission should not miss this important opportunity.

IGS and Direct appreciate the opportunity to submit commits in this proceeding.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I certify that the *Joint Comments of Interstate Gas Supply, Inc. and Direct Energy Business, LLC and Direct Energy Services, LLC* was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on April 16, 2020. The Commission's e-filing system will electronically serve notice of the filing of this document on the parties subscribed to these proceedings.

/s/ Joseph Oliker  
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Summary: Comments electronically filed by Mr. Joseph E. Olikier on behalf of IGS Energy and Direct Energy Business, LLC and Direct Energy Services, LLC