

THE PUBLIC UTILITIES COMMISSION OF OHIO

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. 16-776-EL-UNC

IN THE MATTER OF THE PROCUREMENT OF STANDARD SERVICE OFFER GENERATION FOR CUSTOMERS OF DAYTON POWER & LIGHT COMPANY.

CASE NO. 17-957-EL-UNC

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 DUKE ENERGY OHIO, INC.

CASE NO. 18-6000-EL-UNC

INITIAL COMMENTS OF INTERSTATE GAS SUPPLY, LLC

I. INTRODUCTION

On January 3, 2023, the Commission opened this proceeding to investigate whether directing the EDUs to implement certain SSO auction modifications would help significantly reduce prices resulting from SSO auctions. The modifications include requiring EDUs to implement the following:

- a. Include six-month products in the mix of products for each auction; and

- b. Revise credit requirements for companies seeking to bid at the auctions in order to promote participation without unduly increasing risk.

For the reasons stated further below, Interstate Gas Supply, LLC (“IGS” or the “IGS Energy”) respectfully requests that the Commission decline to modify the Standard Service Offer auctions in the electric distribution service territories. While IGS appreciates the Commission’s concern about the sudden increase in the default pricing we would caution making sudden changes to a process that has been in place for years without any perceived problems. IGS believes that the changes in the default price are accurately reflecting the changes we are seeing in the wholesale markets and in the broader energy markets worldwide.

II. BACKGROUND

In 2008, the General Assembly passed Amended Substitute Senate Bill 221. That law established the regulatory paradigm for setting default service generation rates. Specifically, electric distribution utilities (“EDU”) are required to file and receive approval for an SSO in the form of an electric security plan (“ESP”) or a market rate offer (“MRO”). An EDU is not permitted to offer competitive retail electric service in any other form. To date, the Commission has only authorized utilities to provide an SSO in the form of an ESP.

The SSO functions to make firm generation supply available to customers that are not receiving supply from a competitive retail electric services (“CRES”) provider. Sometimes the SSO is referred to as default supply. For approximately a decade, the SSO generation rate for each utility has been established by a competitive auction to procure generation supply for customers of each EDU for a certain period of time. The

auctions and product have typically been staggered and laddered over multiple years to reduce volatility. While these auctions have produced historically low prices for customers for several years, over the past year, SSO prices resulting from the EDUs' SSO procurement auctions have significantly increased.

The reason for the price increase may be related to several reasons. First, PJM Interconnection suspended its three-year forward capacity auction, reducing the transparency of forward capacity prices.¹ While the process of reforming the PJM capacity market has nearly resolved, the uncertainty around capacity prices necessitated a truncation of the SSO auction product. Second, the squeezing of the SSO product duration coincided with a war in Europe and an unprecedented run up in wholesale natural gas prices, a feedstock for a portion of the electric generation fleet. Third, amidst this volatility, the largest aggregation in the state of Ohio used the SSO as a call option in the middle of their aggregation term, thereby increasing the size of the SSO load that suppliers must bid on.² These conditions taken together have created a perfect storm that has produced higher auction prices.

At the same time, it should not go unnoticed that the underlying conditions that produced the higher auction prices that are the subject of this Entry appear to be moving in the other direction. Natural gas prices have returned to 2020 levels, clearing at \$3.13

¹ *Calpine Corporation, Inc. v. PJM Interconnection, LLC*, Order on Motion for Supplemental Clarification, Docket Nos. EL16-49-000, *et al.* (Jul. 25, 2019).

² *In re Certification of Northeast Ohio Public Energy Council as a Governmental Aggregator*, Case No. 00-2317-EL-GAG.

for the prompt month on Friday January 19, 2023.³ Likewise, PJM has made additional filings that should bring certainty to the forward capacity market, which will permit the EDUs to once again procure an SSO product that includes supplier bids from multiple years.⁴ The Commission has previously observed that such an auction product captures current lower market-based generation prices and blend[s] them with potentially higher prices in order to provide rate stability.⁵ Third, the Commission has already solicited feedback regarding potential new rules for governmental aggregation that may terminate early. Finally, in comparison to other states in this country, it appears that Ohio's generation rates are still some of the lowest in the country.⁶

Given these facts, IGS cautions the Commission against making wholesale changes—pun intended—to the current SSO auction structure.

III. Comments

IGS submits these comments to respectfully request that the Commission decline to modify the Standard Service Offer auctions in the electric distribution service territories.

A. The Commission should not amend Electric Distribution Utility tariffs outside of an Electric Security Plan.

³ <https://www.cmegroup.com/markets/energy/natural-gas/natural-gas.settlements.html#tradeDate=01%2F20%2F2023> (last viewed on 1/23/23).

⁴ *PJM Interconnection, LLC*, Proposed Amendment to the Locational Deliverability Area Reliability Requirement Filed Pursuant to Section 205 of the Federal Power Act, Request for Waiver of Notice Requirement, and Request for an Extended Comment Period of 28 Days, Docket No. ER23-729-000 (Dec. 23, 2023).

⁵ *In the matter of the application for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 12-1230-EL-SSO, Opinion and Order (July 18, 2012) at 56.

⁶ <https://www.utilitydive.com/news/eversource-connecticut-massachusetts-regulators-standard-service-rate-increases/639568/> (last viewed on 1/23/23).

The Commission's ability to regulate the utilities competitive retail electric service lies solely through a standard service offer. The statutory structure for such an offer is established through 4928.141 – 143. Each of the utilities has an already-approved ESP case, and there are currently 2 pending ESP applications with FirstEnergy's expected to be filed in the near future. It appears that the Commission may be seeking to modify those plans in the middle of their terms.

B. The Standard Service Offer should not be modified.

Ohio law requires each of the four Ohio electric distribution utilities to provide a standard service offer 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. Indeed, Ohio law prohibits EDUs from providing competitive retail electric services *except* through an SSO regulated by the Commission. See R.C. 4928.17(A) and (A)(1). 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.

The specific details regarding the basic offering are determined by the SSO authorized by the Commission. 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.

While the Commission's proposal and concerns are well intentioned, IGS disagrees that the Commission should disrupt the current auction structure. The challenges identified by the Commission are not relevant only to the EDUs. CRES

providers face the exact same issues; therefore, it would distort the competitive market to insulate the SSO. Moreover, the Commission's proposal would arbitrarily and unreasonably provide preferential treatment to the SSO product in a time when all market participants must address the same challenges. The Commission should not bend over backwards to modify the SSO auction process and in the process wholly insulate one product from the risks that all other entities must face.

The SSO is a default service that is available to all customers and required to be provided by the electric distribution company. Default service is intended to be a backstop to retail choice for customers, not a replacement for access to the benefits of retail competition. Accordingly, default service should be a simple, "plain vanilla" product, because it is more efficient to provide differentiated, specialized products and services to those customers who want them through the competitive retail market. The role of the Standard Service Offer is to reflect the market price. If customers are uncomfortable with the market and its volatility, there are competitive suppliers that provide other types of products that will meet the needs of those customers.

i. The market is operating

IGS believes that the market is working as it should and IGS would caution the Commission to not overreact and try to fix something that isn't really broken. The Commission should not make changes to the current SSO process simply because we are seeing higher auction prices.

If wholesale markets are higher and more volatile than one would expect retail markets would follow suite. We have seen **unprecedented** volatility and pricing in the

wholesale electric markets corresponding to the volatility and higher pricing in the gas markets over the last 12 months. It is only natural that this volatility and higher pricing in the wholesale market would translate to higher retail pricing.

The regulatory tension is the degree to which the people who don't choose are going to be subject to this volatility.

Finally, IGS notes that Ohio has historically low pricing for electricity when compared to the rest of the United States.⁷ There are many other states, Massachusetts being an example, that are seeing significantly higher prices.⁸

Electricity	Ohio	U.S. Average	Period
Residential	15.25 cents/kWh	16.09 cents/kWh	Oct-22

Electricity	Massachusetts	U.S. Average	Period
Residential	26.28 cents/kWh	16.09 cents/kWh	Oct-22

ii. Offering additional products is a market function that has been allocated to CRES

The Commission should not modify the SSO auction to include six-month products in the mix of products for each auction. Ohio law favors competitive markets and

⁷ <https://www.eia.gov/state/print.php?sid=OH> (last viewed 1/23/23)

⁸ <https://www.eia.gov/state/print.php?sid=MA> (last viewed 1/24/23)

solutions.⁹ Therefore, default service should not be in the role of providing a short-term product, which would be better provided, and currently is provided, by the competitive market. Further, placing the utility in the role of providing a short-term product will diminish customers' incentive to engage with the competitive marketplace.

Recent developments in EDU service territories support the offering of additional products through CRES providers. Although the EDUs began rolling out smart meters many years ago, many are incomplete or are awaiting updates to their IT systems to have the ability to utilize actual customer usage data for purposes of calculating Supplier PJM settlement statements. Consequently, Suppliers had little ability to offer customers dynamic retail products. With new system upgrades being put in place, now is not the time to begin offering competitive products through default service.

In general, particular, complex or experimental product alternatives or ones that would be expensive to create and/or administer should generally be provided to customers through the competitive retail markets, where the customers who want those alternatives can affirmatively choose them, rather than using default service to force such products on all customers.

iii. The Commission should not revise credit requirements for companies seeking to bid at the auctions in order to promote participation.

Credit requirements should not be revised to keep risk out of the SSO auction. Credit requirements are important in organized electricity markets in which the Commission must balance the need for market participation against corresponding risk

⁹ R.C. 4928.02

of default. Default by market participants results in the socialization of costs across the entire market. To minimize this risk, the Commission should not revise the SSO auction credit requirements, which contain provisions related to credit evaluations, credit limits, forms of collateral and the consequences of violations or defaults.

However, the general risk profile of a CRES provider should be taken into account instead of just relying primarily on credit ratings. Privately held, unrated companies such as IGS may have little or no business reason to get a credit rating and it is an unduly burdensome process. The Commission should ensure that credit requirements are just, reasonable, and not discriminatory against privately held companies.

IV. Conclusion

IGS respectfully requests that the Commission decline to modify the Standard Service Offer auctions in the electric distribution service territories.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing *Comments of Interstate Gas Supply, Inc.* was served this 24th day of January 2023 via electronic mail upon the following:

/s/ Stacie Cathcart
Stacie Cathcart

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UNC**

Summary: Comments Initial Comments of Interstate Gas Supply, Inc. electronically
filed by Stacie Cathcart on behalf of Interstate Gas Supply