

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application to Modify,	)	
In Accordance with Section 4929.08,	)	
Revised Code, the Exemption Granted	)	Case No. 12-2637-GA-EXM
Columbia Gas of Ohio, Inc., in Case No.	)	
08-1344-GA-EXM	)	

**DIRECT PREPARED TESTIMONY OF VINCENT PARISI**

**ON BEHALF OF**

**THE OHIO GAS MARKETERS GROUP AND**

**THE RETAIL ENERGY SUPPLY ASSOCIATION**

**November 13, 2012**

1 **Q1. Please state your full name and address.**

2 A1. My name is Vincent A. Parisi and my work address is 6100 Emerald Parkway, Dublin  
3 Ohio 43016.

4 **Q2. Please provide your background and qualifications.**

5 A2. I am the General Counsel and Regulatory Affairs Officer for Interstate Gas Supply, Inc.  
6 (“IGS Energy”). I have been employed by IGS Energy since 2003, initially in the  
7 capacity of General Counsel and Credit Officer and over time my position evolved into  
8 its current role. In this capacity, I am or have been responsible for several aspects of the  
9 business, including all legal, regulatory, and legislative activities. I was formerly  
10 responsible for credit/risk activities and have also been in charge of compliance items  
11 over time, including review of marketing materials, call center scripting and other  
12 messages provided by IGS Energy to the public. My role has me either directly or in a  
13 supervisory capacity responsible for all such activities in all areas where IGS Energy  
14 operates. Prior to being employed by IGS Energy, I was an associate with Chester  
15 Willcox & Saxbe, LLP, and worked with many corporate clients on various issues,  
16 including working with IGS Energy. I earned my bachelor’s degree from The Ohio State  
17 University in economics in 1997, and completed my law degree graduating magna cum  
18 laude from Capital University Law School in 2000. I also received my LLM from  
19 Capital University in business and tax in 2001.

20 **Q3. On whose behalf are you testifying today?**

21 A3. Today, I am testifying on behalf of Ohio Gas Marketers Group and the Retail Energy  
22 Supply Association or jointly “Suppliers”. IGS Energy, the company that I work for, and  
23 many of the members of Ohio Gas Marketers Group (OGMG) and the Retail Energy

1 Supply Association (RESA) are certificated by the Commission as competitive retail  
2 natural gas suppliers and are actively supplying natural gas to retail customers in the  
3 Columbia Gas of Ohio (Columbia) service area. I have personal experience advising my  
4 company generally on competitive retail sales to residential, commercial, and industrial  
5 customers. Also, I have been intimately involved in the creation and refinements to  
6 default service for default customers; specifically, the Standard Service Offer and  
7 Standard Choice Offer supply service in several utility territories in Ohio, as well as the  
8 Dominion East Ohio service territory Monthly Variable Rate program default supplier.

9 **Q4. What is the purpose of your testimony?**

10 A4. I am presenting the views of the OGMG and RESA Suppliers as to the Joint Motion filed  
11 in the matter at bar. Specifically, I will address the state mandate embodied in several of  
12 the Sections of 4929.02(A), Revised Code which directs the policy of the state to have  
13 retail competitive markets set natural gas price and service terms. I will then present why  
14 I think the General Assembly's mandate is particularly well suited for today's natural gas  
15 market. Finally, I will describe problems with the present standard choice offer  
16 arrangement and describe how the motion and stipulation filed in this proceeding will  
17 provide needed additional clarity to the competitive market as to the next phase in  
18 development of default service for non-residential customers that have not elected a  
19 supplier.

20 **Q5. Will you articulate the policy of the State as described in Section 4929.02(A), Ohio**  
21 **Revised Code?**

22 A5. Effective June 26, 2001, roughly 11 ½ years ago, the Ohio General Assembly codified  
23 the policy of the state of Ohio as it relates to its position on natural gas competition.

1 Simply stated, Ohio's policy as enunciated in 2001 was to foster an environment in the  
2 State to create effective competition, so that regulated natural gas commodity service  
3 could be eliminated. This is clearly stated in Section 4929.02(A)(7), Ohio Revised Code,  
4 which states it is the Policy of the State to:

5 Promote an expeditious transition to the provision of natural gas services and  
6 goods in a manner that achieves effective competition and transactions between  
7 willing buyers and willing sellers to reduce or eliminate the need for regulation of  
8 natural gas services and goods under Chapters 4905. and 4909. of the Revised  
9 Code[.]

10  
11 Rewinding to 2001, the competitive programs were in their infancy in Ohio and  
12 nationally for residential and small commercial customers. Although traditional  
13 transportation programs had been in place for larger commercial and industrial customers  
14 for two decades by 2001, programs for residential and small commercial customers in the  
15 Columbia service territory and elsewhere in Ohio did not really begin as pilots until 1997  
16 or 1998. As such, Ohio Choice programs were in their infancy in 2001 and the State  
17 recognized that it would take some time to restructure the markets to ensure effective  
18 competition was developed. However, it is clear in the policy that once effective  
19 competition was developed in the State, regulated commodity service was to be  
20 eliminated in favor of competitive markets. The Ohio legislature saw the wisdom in  
21 fostering competition and created policies that would promote competition. The State  
22 also understood that it would take some time to unbundle commodity programs, identify  
23 inequities in the programs, and revise the programs to ensure that subsidies would not  
24 hinder the development of the markets or inhibit consumers electing competitive supply  
25 alternatives, creating law to ensure the process progressed.

1 **Q6. Are there other sections in 4929.02 Ohio Revised Code that support your position of**  
2 **the policy of the State?**

3 A6. Yes, in fact the entire subsection of 4929.02(A) supports the notion that it is the policy of  
4 the state to foster competitive markets. I will address several of the sections below, but  
5 some general prefatory comments are also important. Beyond fostering the development  
6 of competitive markets, it is also evident that the Legislature intended that consumers at  
7 all levels of consumption in the State be proactive participants in selecting their natural  
8 gas commodity service, not just that competition should be available to consumers.  
9 Eliminating regulated service is the end result once effective competition is developed,  
10 although in Ohio we have taken more measured steps toward that final state. The policy  
11 of the State, to foster competitive natural gas markets in order to ultimately eliminate  
12 regulated service, inherently means that once effective competition exists, consumers will  
13 no longer be inactive or passive recipients of the commodity services that are available in  
14 the competitive market. The system as it exists today continues to allow consumers to  
15 receive commodity service through inactivity, which over the long term is incongruous  
16 with effective competitive markets. The Legislature used terms such as “elect” and  
17 “selection” in discussing the engagement of consumers in the commodity purchasing  
18 decisions, which are words of action, not inactivity. The request before the Commission,  
19 to allow the non-residential customers to continue to receive default service through a  
20 modified Monthly Variable Rate default structure, is another step along the path of  
21 engaging customers in the market, while continuing to make a default option that allows  
22 passivity to be available.

1           Before addressing the specific Revised Code sections, it is important to  
2 understand that the requested action in the Stipulation does not eliminate a default service  
3 for any customers class, continues to allow all customers that take no action to receive  
4 default service, in no way impacts the availability of SCO service to residential  
5 customers, and only moves the inactive non-residential default customers to an MVR  
6 default service if the Stipulation metrics are achieved. Default service for passive non-  
7 residential customers will continue to be made available, just in a slightly different form.  
8 In a full exit, customers would be required to engage with the market in order to get  
9 commodity service, which is not a request before the Commission. Instead, the  
10 Stipulation is a measured approach toward replacing one default service for another, both  
11 of which are NYMEX based, both with rules associated with providing the service, and in  
12 no way requires non-residential customers to do anything to get commodity service.

13 **Q7. How does this compare to other competitive markets, outside of the energy sector?**

14 A7. Unlike all other competitive markets with which I am familiar, if a seller wants to sell its  
15 product or service, or a buyer wants to buy a product or service, both must engage in the  
16 market to effectuate a transaction. In any competitive market, no one is compelled to  
17 either sell or buy, but if the choice is made to not engage, than the seller registers no sale,  
18 or the buyer leaves the market without the product or service for which he or she was  
19 shopping. An active participation in the market resulting in a sale and purchase is the  
20 only way to satisfy the goals of the respective activity in the market. The buyer has to  
21 elect the product, from the seller, that best meets his or her needs and will then have the  
22 product or service that was elected. Passivity, inactivity, disengagement, or even  
23 ambivalence will lead to no transaction occurring. The Stipulation does not require

1 action on the part of customers, and only if the metric are met does anything change  
2 regarding default service, and then only for the non-residential customers. The evolution  
3 that would occur at that point is the simple replacement of the SCO default service with  
4 the MVR default service for the non-residential customer class, and as is the case today,  
5 non-residential customers that take no action will continue to receive commodity service,  
6 based upon the NYMEX.

7 **Q8. Does this comport with the Ohio Legislature’s Policy enacted in 4929.02?**

8 A8. Yes, as an additional transitional step. The Ohio Legislature directed action in the Policy,  
9 not passivity and disengagement by consumers. This can be seen through an examination  
10 of several additional sections in 4929.02(A), Ohio Revised Code, including  
11 4929.02(A)(2), (3), (4), (5), (6), (7), (8), (10), and (11). For example, subsection (A)(2)  
12 specifically states that it is the State’s policy to promote the availability of unbundled  
13 natural gas services so that retail consumers can *elect* the products that meet their  
14 respective needs. The intent of promoting the availability of unbundled natural gas  
15 services is for customers to engage in the market and make elections of the supplier and  
16 products that meet their needs. Inactivity is not an election and therefore, is inconsistent  
17 with what the policy goal stated in 4929.02(A)(2) states. That said, allowing a default  
18 service to continue in an evolutionary manner is consistent with the Policy, as long as it  
19 exists without subsidies and does not interfere with the continued development of the  
20 competitive market.

21 Another section in the Policy, subsection (A)(3) discusses “diversity of natural  
22 gas supplies and suppliers by giving consumers effective choices over the *selection* of  
23 those supplies and suppliers” (emphasis added). As is the case with (A)(2), this language

1 directly indicates that a single supplier or product is not sufficient to meet this policy goal  
2 and that an active participation by the consumers of the State in selecting those supplies  
3 and suppliers is the intended goal, given the language choice, “selection”. Passivity is  
4 not the intent of the policy of the State, otherwise action words such as “elect” and  
5 “selection” would not have been used throughout the Section 4929.02, Revised Code.

6 **Q9. So is it your testimony that Columbia should exit the merchant function now, as**  
7 **long as the Commission continues to find that the Columbia service territory has**  
8 **effective competition available to consumers?**

9 A9. Although I believe that it is the policy of the State that all consumers have available to  
10 them effective competitive markets and for all customers to engage and affirmatively  
11 choose a natural gas supplier, I am not at this time suggesting the Commission should  
12 compel consumers to makes such elections. The Stipulation before the Commission,  
13 supported by multiple stakeholders including OGMG and RESA, allows for additional  
14 transition regarding default service for the non-residential customer class if and when  
15 very specific and significant metrics are reached. At such point, default service, or the  
16 do-nothing option, will not be eliminated for the non-residential customer class, but will  
17 simply evolve to be a monthly variable rate (MVR) default program. The MVR continues  
18 to allow (a) customers to do nothing and receive service, (b) has significant protections  
19 related to the service, and (c) in no way changes the availability of SCO default service  
20 for residential customers.

21 **Q10. Are there other protections that will be applicable to the MVR program?**

22 A10. Yes. Providers of the MVR product must be a certified retail natural gas supplier  
23 (CRNGS) and must offer an MVR product that affords significant protections to MVR

1 customers. Those protections include: (a) allowing no-cancellation fees for MVR  
2 products (b) posting all suppliers MVR rates on Public Utilities Commission's Apples to  
3 Apples website, (c) permitting periodic disclosures to MVR consumers of a list of all  
4 MVR prices so that MVR customers can easily compare MVR products offered in the  
5 marketplace, and (d) requiring MVR prices to be based on the monthly New York  
6 Mercantile Exchange (NYMEX) settlement each month. Further, if approved by the  
7 Commission, under this Stipulation, non-residential customers will continue to be eligible  
8 for SCO default rate service until the level of non-residential customers receiving service  
9 from a competitive supplier exceeds 70% for a minimum of 3 consecutive months. and  
10 even after the migration threshold is achieved, nine additional months still must pass for  
11 default customers to move to MVR service to ensure that the then existing SCO period  
12 has expired.

13 There are also provisions in the Stipulation to first determine what information the  
14 default non-residential customers need to cleanly make the transition to MVR default  
15 service, and what education will occur to assist a smooth transition to MVR default  
16 service for the non-residential default customers. The additional transition that is  
17 included in the Stipulation simply demonstrates that the State is continuing the evolution  
18 toward fully competitive markets in measured and methodical steps. As such, the  
19 provisions in the Stipulation are reasonable next steps and just like the movement from  
20 GCR to SSO then SSO to SCO for default service, moving from SCO to MVR for default  
21 service for the non-residential customer class demonstrates an ongoing commitment to  
22 competitive markets while maintaining the ability of consumers that do nothing to receive  
23 default service.

1 **Q11. Is it important to demonstrate a commitment to the State Policy regarding**  
2 **eliminating default service?**

3 A11. Yes it is, because suppliers invest in markets based upon knowledge that there are long  
4 term opportunities to provide products and services to the retail customers. For example,  
5 IGS Energy serves customers in almost every competitive retail choice market in the  
6 country, with a few exceptions. Since 2011, this includes multiple electric competitive  
7 markets such as Texas. Retail commodity supply is a relatively low margin business,  
8 meaning it takes long term relationships with consumers to make investment in any  
9 particular market worthwhile. In markets where the State and regulatory authorities have  
10 demonstrated a long term vision and support of competitive markets, Suppliers like IGS  
11 Energy will allocate their resources and invest their time, energy, and resources into those  
12 markets. Ohio's law clearly embraces and fosters growth of competition for retail  
13 consumers, and to date the Commission's actions have furthered that policy. By taking  
14 another step, albeit requiring multiple additional milestones to be achieved before that  
15 step can be taken, signals to the retail market that Ohio remains open for business. This  
16 stability is critical to market investment and is the reason Ohio is IGS Energy's home,  
17 with over 400 employees in the State.

18 **Q12. You state that the legislature saw the wisdom of fostering competition so that its**  
19 **existence could effectuate the elimination of regulated service, what is your basis for**  
20 **this statement?**

21 A12. In the 1970s and 1980s, self-help programs for larger industrial and then larger  
22 commercial customers began to develop because, prior to this time and in many instances  
23 during this time, various attempts to regulate both the price of commodity as well as

1 access to interstate gas lines created significant commodity scarcity in the market. At  
2 several times in the Columbia service territory, schools had to be closed in the winter  
3 because there was simply not enough natural gas available. In addition, for a period of  
4 time moratoriums were enacted to any new home construction that would include use of  
5 natural gas as a heating or cooking source. The Ohio Legislature recognized that the  
6 natural gas existed, but it was not being made available because regulated prices simply  
7 did not foster an equilibrium between supply and demand. Over time, the wholesale  
8 price of gas was allowed to be set by the market, and through several Orders of the  
9 Federal Energy Regulatory Commission (FERC), the interstate pipelines were opened to  
10 transportation of natural gas by competitive suppliers. As such, by the late 1990s, a  
11 vibrant wholesale market had developed as well as retail markets for larger users, and  
12 some retail programs were being piloted in Ohio and elsewhere.

13 However, although the unbundling process was beginning in 2001, it would be  
14 another decade before many of the major inequities would be identified and addressed,  
15 allowing for more equitable competition in the market. Through multiple regulatory  
16 events and stakeholder processes, inequities and subsidies were identified and many  
17 resolved, putting downward pressure on pricing for all customers. As a result, although  
18 not all the subsidies and inequities have been resolved, all customers in the State who  
19 reside in service territories which offer retail competition, including default rates derived  
20 through competitive paradigms have received lower prices and more efficient prices than  
21 would be the case without the existence of retail competition. Stated simply, millions of  
22 households in Ohio have saved collectively tens of millions of dollars as a result of  
23 competition, benefiting whether or not they have shopped. Market prices are down at all

1 levels, inefficient GCRs have been replaced with more efficient SSO and SCO pricing  
2 (although subsidized), only as a result of the existence of competitive retail markets.  
3 Without retail competition, we would still have GCRs in Ohio, costing consumers at all  
4 levels more for their natural gas.

5 **Q13. You listed several other sections in 4929.02 Ohio Revised Code that support your**  
6 **position of the policy of the State, are there others that you would like to discuss?**

7 A13. Yes. At the time the Legislature articulated the State policy supporting development of  
8 competitive retail markets to replace regulated commodity service, it recognized that for  
9 decades only bundled regulated service was available to consumers. As such, it would  
10 take time to unbundle and restructure commodity services although it is unlikely it fully  
11 understood at the time what that would entail. As such, several other provisions were  
12 included in Chapter 4929 Ohio Revised Code, including provisions directing the  
13 Commission to create consumer protection rules to govern how retail suppliers engage  
14 and interact with residential and small commercial customers (ORC 4929.22 and Chapter  
15 4901:1-29 of the Ohio Administrative Code) and requiring a certification process for any  
16 suppliers that wanted to engage residential and small commercial customers (ORC  
17 4929.20). Further, several other significant requirements we implemented of both the  
18 Commission and the utilities, including:

- 19 1. Flexible regulatory treatment by the Commission (ORC 4929.02(A)(6));
- 20 2. Cost effective and efficient access to information regarding operation of  
21 the utility systems (ORC 4929.02(A)(5));
- 22 3. Unbundled services were to be made available for commodity (ORC  
23 4929.02(A)(2));

1           4.     Identifying and avoiding subsidies flowing to or from competitive services  
2           (ORC 4929.02(A)(8));

3           5.     A requirement that both the Commission and Consumers' Counsel follow  
4           the policies enumerated in ORC 4929.02(A)(2) when exercising respective  
5           authorities in the rest of Chapter 4929 (ORC 4929.02(B)) which includes ORC  
6           4929.04(A) allowing exemptions for utilities in providing default services.

7           These sections in particular were, and are, critical to the process of identifying and  
8           eliminating any subsidies that have existed since 2001 and continue today. These  
9           sections also evince the Legislature's awareness that, when starting with a fully bundled  
10          utility service, an examination of the services provided and related costs is necessary to  
11          ensure that shopping customer are able to take full advantage of the competitive market  
12          options without being burdened by unjustified costs or fees. Since 2001 the stakeholders  
13          have been working in various forums to identify subsidies and eliminate them whenever  
14          possible.

15   **Q14. Have all the subsidies and inequities been identified and eliminated?**

16   A14. No. Although many have been identified and many have been addressed, this has  
17          happened only gradually. It has taken over 11 years to identify subsidies and inequities,  
18          and to put forth justification for their elimination. There are a number of examples of  
19          subsidies or inequities that have ultimately been eliminated, but not before years of those  
20          subsidies distorting any possible comparison between regulated default prices and  
21          competitive market prices.

22                 For instance, until very recently (specifically April 1, 2012) customers that  
23          purchased natural gas commodity from the default service, either as a Gas Cost Recovery

1 (GCR) or more recently a Standard Service Offer (SSO), paid a much lower tax rate (the  
2 Gross Receipts Tax, GRT) and avoided the Commercial Activity Tax (CAT). Customers  
3 that shopped were required to pay the significantly higher Sales Tax and suppliers of  
4 competitive services, unlike the utilities, were subjected to the CAT. The lower tax  
5 treatment for default service of the same commodity had nothing to do with the  
6 effectiveness of the competitive market, but if included in comparisons between  
7 competitive products and default service prices would lead to a significantly distorted  
8 view of how those prices compared. The Commission recognized this issue in 2011  
9 through disposition of the Objections filed in Case No. 08-1344 filed by the Ohio  
10 Consumers' Counsel (OCC) and Ohio Partners for Affordable Energy (OPEA) wherein  
11 the OCC and OPEA, argued, in part, that the sales/CAT tax inequity should be  
12 considered by the Commission in making its comparisons and determination regarding  
13 moving from SSO default service to SCO default service. (Case No. 08-1344-GA-EXM).  
14 In that case, the OCC and OPEA argued against moving from the SSO to the SCO  
15 service, citing to a report that claimed significant losses for consumers in the Columbia  
16 service territory as a result of choice participation. It was established in that case that the  
17 post-tax basis comparison was of no value, since the legislature not the Commission  
18 establishes tax policy. The Commission in its Entry approving movement to the SCO, as  
19 provided for in the 2009 Stipulation found that it was inappropriate to make any  
20 comparison on a post-tax basis, and that it was a misrepresentation of the issues before  
21 the Commission to use post-tax analysis as basis for action or inaction regarding  
22 movement from SSO to SCO default service. The simple fact is that for a decade prior to  
23 this 2011 proceeding the tax inequity was recognized, but OGMG and the Commission

1 both recognized that tax policy is set by the Ohio Legislature, not the stakeholders in  
2 unbundling proceedings, and as such, should not be the basis for deciding issues related  
3 to market evolution.

4 There are other examples where over time the competitive market or shopping  
5 customers subsidized default service. Eventually, many of the subsidies were eliminated,  
6 but not before the subsidies and inequities had already been imbedded in comparisons  
7 that were made between default service prices and market prices, rendering such  
8 comparisons meaningless. Although I will not get into all of the specifics, other such  
9 issues included:

10 (1) balancing fee issues up to \$0.48 per Mcf for no comparable assets or services;

11 (2) purchase of receivables discounts;

12 (3) transfer of 20 year historical gas to default customers as a precedent to the  
13 transition to SSO default service;

14 (4) base rate inclusion of commodity related items such as working capital costs  
15 for gas in storage;

16 (5) switching fees, billing fees, and generally asset releases.

17 To be clear, none of this recitation is intended to be critical of either the Commission or  
18 Columbia. To the contrary, over the past 11 years or so the stakeholders, including  
19 Columbia and the Commission staff, worked diligently to identify these inequities and to  
20 find ways to resolve the issues. Both the Commission staff and Columbia should be  
21 commended for their willingness to help identify these issues and resolve them. The  
22 purpose of pointing this out is to point out that in 2001, although it was (and is) the policy  
23 of the state to foster and develop competition, it took legislative wisdom to recognize that

1 subsidies and inequities existing in the bundled service would need to be identified and  
2 eliminated for competition to truly work for consumers in the State. By identifying the  
3 issues above, solutions were created to ensure that for those issues the shopping  
4 customers were neither subsidizing nor being subsidized by default service (the  
5 requirement under Section 4929.02(A)(8), Revised Code).

6 A bit more detail on a few of the issues will help to illustrate the extent of the  
7 items, for instance a balancing fee of \$0.48 per Mcf was charged for years where little or  
8 no services were provided for that fee (resolved primarily in 2008-2009 through release  
9 of assets by the utility and provision of balancing and peaking services for a reduced fee  
10 of \$0.32 per Mcf). Stranded costs were resolved by recognizing that Columbia could  
11 continue to contract for essentially 100% of a peak day for all choice eligible customers,  
12 then release on a recallable basis those assets to the suppliers that were serving customers  
13 (retaining what they needed to provide non-temperature balancing service and eventually  
14 peaking services with those retained assets), so that competitive suppliers were not  
15 paying for assets and services they were not receiving and then being required (in order  
16 to provide firm service to firm customers) to go out into the market and find assets to  
17 serve those customers. One of the provisions in the Stipulation allows Columbia to  
18 continue to contract for the capacity needs of the choice eligible pool, which allows  
19 Columbia to continue to provide the balancing and peaking services, and release the  
20 needed assets to the choice and SCO suppliers to enable the suppliers to deliver natural  
21 gas to the system. Allowing this structure ensures that the assets needed to serve  
22 customers are available for existing suppliers as well as new entrants, and ensures that the  
23 issue was resolved where shopping customers had been paying twice for the same assets

1 and services. The solution took almost a decade to be fully implemented, but today  
2 Columbia retains the contract rights and releases the contracts on a recallable basis so that  
3 suppliers can use those assets to serve customers thus eliminating the substantial inequity  
4 and stranded cost concerns that existed before this solution. Also, since Columbia  
5 continues to contract for the assets and can recall them in the event of a default by a  
6 supplier, the system as a whole remains reliable.

7 Although many subsidies and inequities have been identified and resolved, other  
8 subsidies and inequities continue to exist, so default service, even through the  
9 competitively bid SCO, remains a subsidized service.

10 **Q15. Do you have examples of the ongoing inequities and subsidies you allude to in your**  
11 **previous response?**

12 A15. Yes, although there are several, the following come to mind. First, shopping customers  
13 have nothing to do with the default commodity service, yet embedded either in base rates  
14 or paid for through the CSRR are costs that are really only attributable to the default SCO  
15 service. For example, the costs associated with the annual SCO auctions are paid for by  
16 all customers through the CSRR and base rates, not just those taking SCO service. Since  
17 only SCO default customers take SCO default service, all the costs of the auction,  
18 including the preparatory costs, the regulatory costs, and internal costs at the utility  
19 should be paid for by those taking that default service.

20 Another example is programming costs to continue to provide a default service,  
21 wherein customers are provided commodity service without electing a supplier and  
22 enrolling through the enrollment protocols. Educational programs are another example,  
23 whether it is education regarding default service or even education regarding available

1 choice alternatives. Customers who have shopped already have demonstrated an ability to  
2 elect competitive suppliers and products that meet their needs; and, as such, do not need  
3 the educational materials they may have received when on default service. Going  
4 forward, customers on default service are the customers that benefit from education  
5 regarding both default service and the market and should therefore be responsible for  
6 those costs.

7 Another example is the costs that could occur in the event of a default of an SCO  
8 supplier. Although there is currently a cross-collateral provision to protect non-  
9 defaulting SCO suppliers, and Columbia can and does require a credit review of all  
10 CRNG and SCO suppliers in order to participate in the SCO auction, nonetheless if a  
11 default occurs there are costs and expenses that Columbia will incur in the short term that  
12 will not be covered by the cross-collateral and likely not covered by the Columbia credit  
13 review. Since it is just the integrity of the default SCO and SCO price that is being  
14 protected, only those providing this service or those receiving this service should be  
15 responsible for the risk/cost. Currently it is either an uncovered risk, or the risk will be  
16 borne by the entire customer base through the CSRR or base rates.

17 As a transitional stage, the SSO's and now the SCO's avoidance of many of the  
18 costs of service by putting those costs into the CSRR or otherwise having Columbia  
19 provide the services (such as a call center to answer question regarding the SCO service)  
20 can be manageable subsidies (although not optimal) as long as the parties recognize those  
21 inequities exist and are only transitional in nature. If, however, the SCO is going to  
22 remain as a default service for customers for the foreseeable future, it is imperative that it  
23 not be subsidized.

1 **Q16. Is there anything in the Stipulation that will address the subsidy and inequity**  
2 **issues?**

3 A16. Yes, it was recognized by the stakeholders that issues exist, and the parties that entered  
4 into the Stipulation have agreed that requiring the SCO suppliers to pay a \$.10 per Mcf  
5 fee on the anticipated load won in the auction in advance of providing the service would  
6 provide sufficient collateral to cover the possible costs/expenses resulting from an SCO  
7 supplier default. In addition to the risk of supplier default, the Parties also determined that  
8 additional education is desirable to inform the non-residential customers in default  
9 service, of the next steps related to default service if the metrics are achieved, specifically  
10 the movement from the SCO to the MVR, as well as gathering some information from  
11 consumers regarding the type of information they would need to make the transition from  
12 SCO default service to MVR default service smooth. All of these expenses are only  
13 relevant to the default service class, since the information regarding such transition and  
14 information gathered will benefit the default service customers. Additionally, because the  
15 SCO providers benefit from continued access to significant retail customer load without  
16 having to in any way engage in the retail market or comply with any of the administrative  
17 rules in serving retail customers, it is either appropriate to (a) directly assess the default  
18 customers the costs associated with the education, surveys, and other IT programming  
19 needed to ensure continued default service, or (b) retain the \$.10 per Mcf SCO supplier  
20 fee not utilized by a Columbia in the event of a default and pass it back through the  
21 CSRR, the mechanism that was identified as the vehicle to recover the costs for any  
22 defaults, education, IT programming, and other costs.

23 **Q17. Do you believe the \$.10 fee is sufficient to cover all of these default costs?**

1 A17. No, I think the amount of the above costs and other subsidies as well as avoided costs that  
2 are part of the default service are significantly greater than the \$0.10 SCO supplier fee.  
3 However, the resulting \$0.10 SCO supplier fee is a reasonable compromise resulting  
4 from the serious and well thought out bargaining that occurred by the parties signing the  
5 Stipulation, and as such OGMG and RESA support the fee and the disposition of the fee.  
6 If the issues were fully litigated, the time, energy, and resources spent would be  
7 significant and for purposes of this Stipulation, the result was reasonable in consideration  
8 of those items.

9 **Q18. Is IGS Energy an SCO supplier currently on the Columbia system?**

10 A18. Yes, IGS is an SCO supplier to Columbia. Further we have been a winning supplier in  
11 virtually all the auctions that have occurred in Dominion and Vectren since the inception.  
12 By being both an SCO supplier and a Choice Supplier we are in a good position to assess  
13 the relative cross subsidy that shopping Choice customers are paying now for the Choice  
14 eligible customers who do not shop.

15 **Q19. Does IGS Energy support paying the fee as well as the disposition of the fee?**

16 A19. Yes, as a winning SCO supplier, IGS recognizes that it receives a significant number of  
17 customers through the auction in a single event, and that as an SCO supplier are relieved  
18 from identifying, enrolling, verifying, document retention, notices, and other rules  
19 covering Choice customers embedded in Chapter 4901:1-29 of the Ohio Administrative  
20 Code. In the SCO context, the local distribution utility picks up these costs for SCO  
21 suppliers which are paid for by all customers via base rates. As such, it is appropriate  
22 for SCO suppliers like IGS as part of their bid to cover the costs to ensure against  
23 potential default as an SCO supplier, as well as to contribute to the costs for default

1 customers that are otherwise avoided by the SCO supplier (like educational and  
2 administrative costs) due to the nature of default service. No supplier is required to bid in  
3 the auction, and certainly any supplier could make the election not to bid, or to include or  
4 not include the dime in its bid price. Also, any customer who feels the default service  
5 cost is higher as a result can certainly avoid it by simply electing a competitive supplier  
6 and product. The alternative, directly assessing the costs on the SCO default customers is  
7 an option, but currently there is not a mechanism to accomplish this. As such, the result  
8 in the stipulation balances the interests and is a reasonable result.

9 **Q20. Are there other benefits of the competitive market?**

10 A20. Yes, one final point. Customers in Ohio's largest utility service territories that have had  
11 choice available have saved millions of dollars because of the existence of the retail  
12 competitive market. Competitive markets have provided ample natural gas at all demand  
13 levels, where under a GCR, there was significant scarcity. Retail competition has created  
14 a downward pressure on prices, from which all customers have benefited. Because of the  
15 existence of retail competition and a desire of the market to serve all customers, the  
16 inefficient GCR mechanism has been all but eliminated in most of the major utilities in  
17 favor of competitively bid SSO and SCO rates. Although subsidies continue to exist, the  
18 SSO and SCO would not exist but-for the retail competition that exists in this state. In  
19 the 2008 phase of Case No. 08-1344-GA-EXM, the staff report suggested approval of the  
20 first SSO auction and demonstrated that the GCR converted to a NYMEX plus price  
21 would have equaled approximately NYMEX plus \$2.87 to \$3.06. The prices in the  
22 market from retail suppliers have always beaten that rate, although many of the prices  
23 were fixed price products that may or may not have done better as the market moved up

1 and down over time. It is, however, indisputable that without retail competition  
2 consumers would still be paying GCR prices, which are inherently inefficient and likely  
3 substantially higher than the prices all customers have available to them in the market  
4 today.

5 **Q21. Please summarize your advice to the Commission.**

6 A21. Section 4929.02(A), Revised Code requires the Commission to promote the transition  
7 from regulated prices and service terms to market based prices and service terms. The  
8 Joint Application is requesting a measured approach to continue the evolution of the  
9 competitive market, one that if approved would allow retail suppliers to understand the  
10 benchmarks that must be obtained to transition non-residential customers to an MVR  
11 default service, and allow for a benchmark that if achieved would allow the parties to  
12 approach the commission and request additional transition for the residential customer  
13 class. Approval of the 10 cent supplier charge simply begins a process of avoiding the  
14 historical cross-subsidization and inequities that have persisted to date.

15 **Q21. Does that complete your testimony?**

16 A21. Yes.

## CERTIFICATE OF SERVICE

I certify that a copy of the foregoing document has been served on the following persons below via electronic mail this 13th day of November, 2012.

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