



PEOPLES NATURAL GAS™



PEOPLES TWP

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**Via e-Filing**

December 12, 2013

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105

Re: Investigation of Pennsylvania's Retail Natural Gas Supply Market  
Docket No. I-2013-2381742

Dear Secretary Chiavetta:

Please accept by e-Filing the enclosed Joint Comments of Peoples Natural Gas Company LLC and Peoples TWP LLC in the above-referenced proceeding.

If you have any questions or concerns regarding this matter, please do not hesitate to contact me at (412) 208-6527.

Very truly yours,

Attorney for Peoples TWP LLC and  
Peoples Natural Gas Company LLC

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

|                                  |   |                           |
|----------------------------------|---|---------------------------|
| Investigation of Pennsylvania's  | ) | Docket No. I-2013-2381742 |
| Retail Natural Gas Supply Market | ) |                           |
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**JOINT COMMENTS OF PEOPLES NATURAL GAS COMPANY LLC  
AND PEOPLES TWP LLC**

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**I. INTRODUCTION**

Peoples Natural Gas Company LLC (“Peoples”) and Peoples TWP LLC (“Peoples TWP”) (sometimes hereinafter collectively referred to as the “Companies”) submit these Joint Comments in response to questions posed by the Public Utility Commission (“Commission”) in the Order entered in the matter on September 12, 2013 (“Order”). By that Order, the Commission renewed its inquiry and initiated a formal investigation into the current status of Pennsylvania’s retail natural gas market to assess whether effective competition exists and make recommendations for improvements to ensure that a properly functioning and workable competitive retail natural gas market operates in the state.

The Commission explained that this investigation will proceed in two phases with the first phase to assess the status of the current retail gas market and explore what changes are needed to allow customers to best realize the benefits of choice. The second phase is to be headed by the Commission’s Office of Competitive Market Oversight (OCMO) whose charge will be to examine and address how to best resolve the issues raised and then how to implement the prudent changes identified to improve competition.

To assist it in assessing the status of the current retail gas market and exploring what changes are needed to allow customers to best realize the benefits of choice, the Commission asked interested parties to respond to eight (8) questions set forth in the Order. Each of the questions is set forth below, followed by the Companies' response.

**II. COMMENTS**

**1. What is the current status of retail natural gas competition for customers, by class and by service territory, and for NGSs? For each such customer class and service territory, how accessible are competitive suppliers?**

Peoples has a healthy competitive market with over 25% of residential customers and about 40% of commercial customers shopping for their gas with an NGS. A very large majority of industrial customers acquire their gas supplies from NGSs. Below are the Peoples shopping statistic as of July 31, 2013:

| <b>Peoples Natural Gas Company LLC<br/>NGDC Customer Switching Statistics as of 7/31/2013</b> |                    |                   |                   |              |
|-----------------------------------------------------------------------------------------------|--------------------|-------------------|-------------------|--------------|
| <b>Customer Data</b>                                                                          | <b>Residential</b> | <b>Commercial</b> | <b>Industrial</b> | <b>TOTAL</b> |
| <b>Number (#) of Customers Using Alternative Suppliers</b>                                    | 80,868             | 12,224            | 166               | 93,258       |
| <b>Percent of Customers Using Alternative Suppliers</b>                                       | 25%                | 39%               | 83%               | 26%          |
| <b>Annual Load Data</b>                                                                       | <b>Residential</b> | <b>Commercial</b> | <b>Industrial</b> | <b>TOTAL</b> |
| <b>Customer Load (Mcf) Using Alternative Suppliers</b>                                        | 7,762,765          | 10,905,495        | 18,346,492        | 37,014,751   |
| <b>Total Customer Load (Mcf)</b>                                                              | 31,447,678         | 16,795,007        | 18,484,354        | 66,727,039   |

|                                                   |     |     |     |     |
|---------------------------------------------------|-----|-----|-----|-----|
| <b>Percent of Load From Alternative Suppliers</b> | 25% | 65% | 99% | 55% |
|---------------------------------------------------|-----|-----|-----|-----|

There are currently 18 suppliers on the Peoples system serving customers. Ten of the suppliers are serving residential and small commercial customers.

With regard to Peoples TWP, NGSs historically have not been interested in marketing to residential and commercial customers on the Peoples TWP's system. However, with the recent changes proposed by the Company following its collaborative with NGSs, there has been a flurry of applications on the Peoples TWP system. The changes are expected to go into effect in early 2014. Below are the Peoples TWP shopping statistics as of July 31, 2013:

| <b>Peoples TWP LLC<br/>NGDC Customer Switching Statistics as of 7/31/2013</b> |                    |                   |                   |              |
|-------------------------------------------------------------------------------|--------------------|-------------------|-------------------|--------------|
| <b>Customer Data</b>                                                          | <b>Residential</b> | <b>Commercial</b> | <b>Industrial</b> | <b>TOTAL</b> |
| <b>Number (#) of Customers Using Alternative Suppliers</b>                    | 0                  | 50                | 15                | 65           |
| <b>Percent of Customers Using Alternative Suppliers</b>                       | 0%                 | 1%                | 79%               | 0%           |
| <b>Annual Load Data</b>                                                       | <b>Residential</b> | <b>Commercial</b> | <b>Industrial</b> | <b>TOTAL</b> |
| <b>Customer Load (Mcf) Using Alternative Suppliers</b>                        | 0                  | 830,473           | 11,169,337        | 11,999,810   |
| <b>Total Customer Load (Mcf)</b>                                              | 5,020,801          | 2,763,277         | 11,415,442        | 19,199,520   |
| <b>Percent of Load From Alternative Suppliers</b>                             | 0%                 | 30%               | 98%               | 63%          |

There are currently two NGSs serving customers on the Peoples TWP system. Neither currently serves residential and small commercial customers.

**2. Are currently effective NGDC rates properly structured to reflect the separation between the costs of the NGDC's role as a distribution utility and its role as a Supplier of Last Resort (SOLR)?**

Yes. Both Peoples and Peoples TWP have established a Price to Compare consisting of natural gas Commodity Charges, a Gas Cost Adjustment Charge, a Merchant Function Charge ("MFC"), and a Gas Procurement Charge ("GPC"). Both companies have unbundled their purchased gas cost related uncollectible accounts expense and established a discrete rate, the MFC, for recovery of these expenses. Both have also unbundled their gas procurement expenses and established a Gas Procurement Charge ("GPC") for recovery of these expenses. The components of the Price to Compare are only paid by sales customers for whom the utility procures natural gas.

The Companies encourage the Commission to reject any arguments that may be made that additional costs need to be unbundled from the delivery charge and recovered only through the natural gas supply charge assessed to SOLR sales customers. The Companies continue to incur supply related costs for the benefit of all customers, such as management of local gas supply agreements and gas supply receipts, management of pipeline transportation and storage agreements, and scheduling of gas receipts and deliveries, that are properly recoverable from all customers. The Companies believe that customer choice should be encouraged but that the encouragement is best provided through choice-friendly terms and conditions of service as opposed to non-cost justified shifts of cost responsibility.

**3. Does the existing market design of NGDCs serving as the SOLR present barriers that inhibit customer choice or prevent suppliers from fully participating in the retail market?**

The Peoples companies are aware of the argument that having the NGDC serve as the SOLR creates barriers that inhibit customer choice, but the Companies are not aware of any anecdotal evidence that the existing market design of NGDCs serving as the SOLR presents barriers that inhibit customer choice or prevent suppliers from fully participating in the retail market.

#### **4. Should NGDCs continue in the role of SOLR?**

Generally yes. The NGDC has the public utility service obligation and the practical incentive to see that its system operates safely, efficiently, and reliably. Moreover, the NGDC is in the best position to most efficiently coordinate its distribution system delivery obligations with the gas supply requirements that reside with a SOLR provider. To transfer the SOLR obligation to another entity would require the NGDC to establish a clearly defined gas supply capacity portfolio that would be retained by the NGDC in order to safely and reliably operate the distribution system and ensure that supply and customer usage requirements are in balance across the system. Additionally, this would also likely require the NGDC to establish gas supply delivery requirements for the SOLR at various city-gate points throughout the distribution system.

In the natural gas industry, there is no regional entity to ensure that commodity and delivery capacity will be available to the NGDC's system. This is a meaningful difference from the electric industry where Regional Transmission Organizations ("RTOs") have oversight for upstream capacity planning. In fulfilling these roles, the Peoples companies not only plan, procure and schedule upstream capacity and commodity, but they also manage the receipt of commodity from thousands of local production meters and the delivery of that commodity to end users. To date, no one has approached the Peoples companies with a proposal to assume these

roles. Perhaps some envision a more limited role for a SOLR, one that only ensures the delivery of quantities of gas to the NGDC's system when a supplier or suppliers fail to deliver. The Companies would suggest that the scope of a substitute SOLR's duties, and especially those related to assurance of reliable delivery of natural gas, should be an integral part of this investigation if there is any consideration at all of pursuing the discontinuance of NGDCs in the role of SOLR.

**5. Are there enhancements and updates to the current SOLR model that would further improve the state of competition within the retail natural gas market?**

The Peoples companies are not aware of any such enhancements and updates.

**a. Are there opportunities through the potential restructuring of the SOLR model and retail gas market to encourage expansion of natural gas distribution facilities into areas of the Commonwealth that do not currently have access to natural gas facilities?**

The Companies believe that expansion of natural gas distribution facilities is driven more by expected return on investment in the expanded facilities than by SOLR or retail gas market issues in the new service areas. Nevertheless, expansion into new service territories may be encouraged (or at least a disincentive to expand may be removed) if the NGDC did not assume a public utility obligation to continue to serve, including the SOLR obligation, with respect to new customers for whom service is available only from unregulated gathering facilities where the owner/operator does not have an ongoing public service obligation. Further, the Companies generally support regulatory initiatives, such as revised and innovative rate structures, that would allow NGDCs to recover utility extension costs in a way that would encourage the expansion of NGDC service areas.

In addition, as the technology around the LNG and CNG processes continues to evolve and become more commercially viable, the Companies would support regulatory policy that encourages NGDCs to utilize these products to make natural gas available to more customers as an alternative to pipeline extensions that may be difficult to economically justify.

**b. Are there changes to the retail natural gas market that the Commission can undertake *de novo* through regulation or policy that would promote retail natural gas competition?**

The Companies are not aware of any such changes.

**c. Are there changes to the retail natural gas market that the Commission can undertake *de novo* through regulation or policy that would remove barriers to retail natural gas competition?**

The Companies are not aware of any such changes.

**d. What legislative changes should be made to further improve the retail natural gas market in Pennsylvania?**

The Peoples companies support the enactment of HB1188, which would promote retail natural gas supply competition through the elimination of migration riders and establish symmetrical rates of interest for over and under collections of purchased gas costs. This is expected to address perceived inaccuracies of current gas price forecasts. In turn, accurate price forecasts will reduce the level of future period reconciliations for over- and under-recovery of gas costs, and make price comparisons between the NGDC price to compare and NGS service offerings more transparent.

The Peoples companies are not aware of any reason to believe that the state of the retail natural gas market in Pennsylvania is hindered by current statutory framework.

**6. Are there outcomes from the Commission's recently completed electric RMI that would be applicable and useful to implement in the retail gas**

**market? To the extent possible, please provide comments on the following topics:**

- a. Seamless Move**
- b. Accelerated Switching Timeframes**
- c. Standard Offer Program**
- d. Low-income customer shopping**
- e. Expanded Consumer Education about shopping**
- f. Any additional RMI initiative that would translate well to the retail natural gas market**

The Companies did not participate in the electric RMI. In general, the Companies support accelerated switching timeframes to the extent the timeframe is consistent with the utility's meter reading and billing systems; and expanded consumer education about shopping.

**7. To take advantage of the opportunity that is present through the Marcellus Shale resource, should NGDCs and NGSs be encouraged to explore opportunities with natural gas exploration and production companies?**

The Peoples companies currently and will in the future take advantage of the Marcellus Shale resource because it provides a low cost source of supply for their systems and bolsters economic development in the Companies' service territories. The Companies also support and have implemented regulatory initiatives that provide NGSs with direct access to pipeline capacity and natural gas commodity supplies, under contract with the NDGC, that are used to move regionally produced Marcellus production to customers. The Companies would also support ratemaking policies that encourage NGDCs to use underutilized capacity to receive and deliver locally produced gas to off-system markets.

**8. Recognizing that the Commission withdrew the proposed rulemaking addressing NGDC business practices at Docket No. L-2009-2069117 and committed to commencing a new proposed rulemaking on these issues, please provide comments on the continued need to address standardized**

**supplier tariffs and business practices with regard to imbalance trading, tolerance bands, cash out and penalties, nominations and capacity.**

Because all NGDC systems are different in their supply options and system operational capabilities, standardized supplier tariffs and business practices with regard to imbalance trading, tolerance bands, cash out and penalties, nominations and capacity may not be appropriate. However, the Peoples companies will support further collaboration on where standardized practices can be implemented.

**III. CONCLUSION**

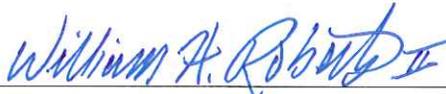
The Companies are members of the Energy Association of Pennsylvania (“EAP”) and endorse EAP’s comments filed in this proceeding.

WHEREFORE, the Companies respectfully request that the Commission accept these Joint Comments and give them due consideration in this proceeding.

Respectfully submitted,

PEOPLES NATURAL GAS COMPANY  
LLC

PEOPLES TWP LLC

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Dated: December 12, 2013