

# Philadelphia Gas Works

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December 12, 2013

## VIA EXPRESS MAIL

Rosemary Chiavetta - Secretary  
PA Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Enclosed for filing are Philadelphia Gas Works' Comments to the September 12, 2013 Order in the above referenced matter.

If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Gregory J. Stunder", is written over the typed name. The signature is stylized and somewhat cursive.

Gregory J. Stunder

Enclosure

**PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, PA. 17105-3265**

**Investigation of Pennsylvania's  
Retail Natural Gas Supply Market**

**Docket No. I-2013-2381742**

**COMMENTS OF PHILADELPHIA GAS WORKS  
TO THE SEPTEMBER 12, 2013 ORDER**

**I. INTRODUCTION**

On September 12, 2013, the Pennsylvania Public Utility Commission (“PUC” or “Commission”) entered an Order initiating an “Investigation of Pennsylvania’s Retail Natural Gas Supply Market” and seeking comments to eight questions regarding natural gas competition. PGW has reviewed the September 12, 2013 Order and submits the following comments.

**II. COMMENTS**

**QUESTION 1: What is the current status of retail natural gas competition for customers, by class and by service territory, and for NGSs [Natural Gas Suppliers]? For each such customer class and service territory, how accessible are competitive suppliers?**

RESPONSE: As PGW’s most recent switching data shows, more than half of its firm commercial customer load and almost all of its firm industrial customer load is supplied by NGSs. As for residential and small business customers, PGW has worked extensively with NGSs and other interested stakeholders in two collaborative proceedings in order to lay the groundwork for creating a fully supported and robust shopping environment in PGW’s

service territory. PGW recently filed a Joint Petition for Settlement (encompassing issues in the two collaborative proceedings) in which PGW agreed to implement a Purchase of Receivables Program, Utility Consolidated Billing and an enhanced supplier communications platform (i.e. EDI). PGW also agreed to implement an extensive Choice-related customer education program in coordination with the establishment of the Purchase of Receivables Program and Utility Consolidated Billing. Joining PGW in this Settlement Agreement are Interstate Gas Supply, Dominion Retail, Hess, the Office of the Consumer Advocate and the Office of the Small Business Advocate (and not opposing the Settlement Agreement are Direct Energy, the Bureau of Investigation and Enforcement, the Tenant Union Representative Network, Action Alliance of Senior Citizens of Greater Philadelphia and the Philadelphia Industrial and Commercial Gas Users Group). The Settlement is currently under review by a PUC Administrative Law Judge. The Settlement Agreement was submitted in Docket Nos. R-2008-2073938 and R-2009-2139884 and can be found at the following link: <http://www.puc.state.pa.us/pcdocs/1245351.pdf>.

**QUESTION 2: Are currently effective NGDC [Natural Gas Distribution Company] 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)?**

RESPONSE: Yes, the Commission initiated a rulemaking proceeding addressing this issue and the final regulation recently became effective. In compliance with this regulation, PGW unbundled gas procurement costs and gas supply related bad debt expense from base rates. PGW's unbundled rates, after the conclusion of a Section 1308(a) tariff filing proceeding, became effective on October 1, 2013.

**QUESTION 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?**

RESPONSE: PGW does not believe that the existing market design of PGW serving as the SOLR presents barriers that inhibit customer choice or prevents suppliers from fully participating in the retail market in PGW's service territory. PGW is looking forward to further discussing this question with interested parties within the context of this proceeding. PGW's primary focus with respect to providing SOLR service is to provide security of supply. Security of supply is an important issue within the context of a natural gas distribution system (especially a capacity constrained service territory such as PGW's<sup>1</sup>) because there is not an equivalent to PJM which will ensure that natural gas is deliverable on a year round basis to all firm natural gas service customers. As a result of the foregoing, any prospective design change related to customer choice or suppliers participating in the retail market must continue to maintain security of supply as a priority.

**QUESTION 4: Should NGDCs continue in the role of SOLR?**

RESPONSE: Many parties use the terms "SOLR" (i.e Supplier of Last Resort) and "Merchant Function" interchangeably but these functions are quite different – the SOLR function provides security of supply whereas the Merchant Function provides gas supply. In response to this question, PGW is assuming that the Commission is addressing security of supply.

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<sup>1</sup> Natural gas is delivered to PGW's service territory via two lateral pipelines.

PGW should continue as the SOLR. As the SOLR, an NGDC is responsible for forecasting annual firm usage and ensuring that there is enough storage and transportation capacity and natural gas supply to meet an individual service territory's design requirements at all shopping levels. Accordingly, SOLRs must not be placed in a position in which they reduce a substantial amount of their capacity contracts (resulting in the capacity contracts being irrevocably controlled by several third party suppliers) or else security of supply will be placed at risk. Additionally, security of supply is placed at even greater risk in service territories which are capacity constrained. Furthermore, a SOLR must always be able to maintain the ability to procure and transport natural gas in case a third party supplier fails to deliver supply to firm customers. PGW is looking forward to discussing these considerations within the context of this proceeding.

**QUESTION 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?**

- 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?**

RESPONSE: Not applicable to PGW's densely populated service territory which is surrounded by the service territory of another NGDC.

- 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?**

RESPONSE: PGW is interested in exploring this question with interested parties within the context of this proceeding.

- 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?**

RESPONSE: PGW is interested in exploring this question with interested parties within the context of this proceeding.

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

RESPONSE: PGW is interested in exploring this question with interested parties within the context of this proceeding but it is important to note that HB 1188 has been introduced and passed in the House as a result of the collaborative efforts of NGSs, NGDCs, the Office of Consumer Advocate, Commission staff and the Energy Association of Pennsylvania. If enacted, this legislation will be beneficial to the retail competitive market by removing the statutory requirement of a migration rider from purchase gas cost rates, establishing a uniform market based interest rate for over/under collections and providing for cost recovery on a full and current basis for expenses incurred to implement retail market enhancements ordered by the Commission.

**QUESTION 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**

RESPONSE: PGW is interested in exploring this question with interested parties within the context of this proceeding but there may be significant costs related to administrating seamless moves -- PGW reasonably foresees that there will be both one-time IT modification costs and continuing administrative costs. Additionally, seamless moves are not permitted by current regulations.<sup>2</sup>

**b. Accelerated Switching Timeframes**

RESPONSE: PGW is interested in exploring if there are various ways to accelerate switching time frames but the Company is concerned that mid-billing cycle changes will result in significant cost increases and an increase in customer confusion (resulting in increased customer disputes). For example, PGW has 22 monthly billing cycles for approximately 500,000 customers and PGW's automatic meter reading system uses radio technology to automatically read gas meters from PGW vehicles. The meter reading routes are established based on neighborhoods and frequent deviations from these routes to accommodate special meter readings to initiate supplier service will necessitate the hiring of additional staff for this purpose. Mid-cycle changes may also make the customer bills for that month more confusing and more prone to dispute. Additionally, it

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<sup>2</sup> 52 Pa.Code 62.75.

is possible that billing system modifications may be required. If there are other ways to shorten the time frame, PGW is interested in discussing them. Furthermore, PGW believes that if customers are properly educated about their billing cycle as part of a gas choice customer education program, they will have a reasonable expectation as to when supplier charges will take effect.

**c. Standard Offer Program**

RESPONSE: PGW is interested in exploring this topic with interested parties within the context of this proceeding.

**d. Low-income customer shopping**

RESPONSE: PGW's low income program (titled "CRP") is a percentage of income program, therefore, the CRP customer who shops in PGW's service territory will not receive any actual benefit from their shopping choices and will not receive any price signals whatsoever. As a result, CRP customers will most likely respond to offers based on shopping incentives which are offered directly to the CRP customer. If a supplier ties such incentives to its higher priced offers, the PGW customer who subsidizes the low income program via the Universal Services Charge will bear the cost of CRP customer shopping.

**e. Expanded Consumer Education about shopping**

RESPONSE: As mentioned in number 1 above, PGW recently filed a Joint Petition for Settlement (encompassing issues in two collaborative proceedings) in which PGW agreed to implement a Purchase of Receivables Program, Utility Consolidated Billing and an

enhanced supplier communications platform (i.e. EDI). PGW also agreed to undertake and support substantial consumer education efforts. These efforts will include two choice-related mailings to all PGW customers which will, among other things: 1) encourage customers to shop; 2) provide supplier specific information; and 3) provide customers with all of the information which will actually place them in a position to shop. PGW's consumer education efforts will also include dedicating a webpage on the Company's website which will provide extensive choice program information. PGW's choice education will also include choice-related messaging on its bills, setting aside space on its bill inserts for choice-related information, developing call center scripts which will provide choice program information when a customer applies for natural gas service and developing choice-related hold recordings. PGW has also agreed to continue its collaborative efforts in order to continue supporting customer choice. Additionally, interested parties (involved in the Settlement) are permitted to become involved in determining the details of PGW's consumer education efforts.

- f. Any additional RMI initiative that would translate well to the retail natural gas market**

RESPONSE: No.

**QUESTION 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?**

RESPONSE: PGW is interested in exploring this question with interested parties within the context of this proceeding.

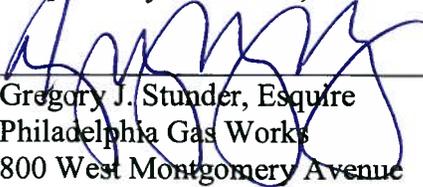
**QUESTION 8: Recognizing that the Commission withdrew the proposed rulemaking addressing NGDC business practices at Docket No. L-2009-2069117 and committed to commencing a new proposed rulemaking on these issues, please provide comments on the continued need to address standardized supplier tariffs and business practices with regard to imbalance trading, tolerance bands, cash out and penalties, nominations and capacity.**

RESPONSE: Each NGDC has its own unique set of operational characteristics and constraints. To the extent that there is commonality, standardized tariffs and practices may be appropriate but this commonality can only be properly determined by a discussion among interested parties. As a result, a working group of interested parties should be convened in order to determine what commonality exists among service territories.

### III. CONCLUSION

PGW respectfully requests that the Commission consider the above comments as this matter proceeds.

Respectfully Submitted,



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Dated: December 12, 2013