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VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Filing Room
Harrisburg, PA 17120

RE: Investigation of Pennsylvania's Retail Natural Gas Supply Market;
Docket No. I-2013-2381742; **COMMENTS OF NATURAL GAS
SUPPLIER PARTIES TO TENTATIVE ORDER**

Dear Secretary Chiavetta:

Enclosed for electronic filing with the Commission are the Comments of Natural Gas Supplier Parties to Tentative Order in the above-captioned matter.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

Todd S. Stewart
*Counsel for Dominion Retail, Inc. d/b/a
Dominion Energy Solutions, Shipley Energy
Company, Rhoads Energy Corporation and
AMERIGreen Energy*

TSS/jld
Enclosure

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**COMMENTS OF NATURAL GAS SUPPLIER PARTIES
TO TENTATIVE ORDER**

NOW COME, Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”), Shipley Energy Company (“Shipley”), Rhoads Energy Corporation (“Rhoads”), and AMERIGreen Energy (“AMERIGreen”) (collectively “NGS Parties”) and hereby submit their joint comments to the Commission’s Tentative Order, dated August 21, 2014 (“Tentative Order”), in the above captioned matter.

I. INTRODUCTION

On September 12, 2013, the Pennsylvania Public Utility Commission (“Commission”) issued an Order initiating an investigation of Pennsylvania’s retail natural gas supply market. *Investigation of Pennsylvania’s Retail Natural Gas Supply Market*, I-2013-2381742 (Order entered September 12, 2013). The NGS Parties provided comprehensive comments to that Order, expressing their collective view that having natural gas distribution companies (“NGDC”) continue to serve as the Supplier of Last Resort (“SOLR” or “Default Supplier”) is the major inhibitor of the competitive natural gas supply market in the Commonwealth. The primary reasons being the inherent leverage of a utility brand name, the competitively detrimental comparison of regulated rate structure versus competitive market pricing, and the fact that all customers begin service on SOLR service and are required to pay a migration rider charge if they

ever decide to leave default service and choose a supplier. The NGS Parties suggested that providing incentives for NGDCs to exit the merchant function voluntarily was one obvious approach to the problem as they see it. The NGS Parties also proposed interim steps, including standard offer programs to assist in migrating customers away from default service in a more organic fashion.

In its Tentative Order, the Commission tentatively directed its Bureau of Competitive Market Oversight (“OCMO”) to “examine various issues which will lead to an improvement in the retail gas market and to stimulate customer participation.” (Tentative Order, p. 30). The Commission then concluded that examination of the current model for providing SOLR or default service, will not be examined in this proceeding, at least not immediately. The Commission reached the same conclusion with regard to further rate unbundling, and reserved consideration of standard offer programs until a later phase of the investigation. The Commission did conclude, however, that a number of subjects did require further investigation, namely: 1) assignment of Capacity – both pipeline and storage; 2) access to delivery points on NGDC systems for injection and transportation of locally produced gas on a non-discriminatory basis; 3) system balancing, including tolerances and penalties for non-compliance; 4) creditworthiness standards; 5) seamless moves and instant connects; 6) switching timeframes; 7) CAP customer shopping; 8) customer education; 9) purchase of receivables (“POR”) best practices; 10) disclosure statements; 11) joint bill; 12) account number lookup; 13) migration rider; and, 14) electronic data exchange protocols. This list of issues tends, for the most part, to focus on the operational side of the equation, however, that is, after customers have made, or not made, the choice of a natural gas supplier. That is not to say that these issues are not significant, or that they do not need to be addressed. To the contrary, if these issues can be resolved

favorably it will make the process more efficient and the customer experience better. However, any such solutions will have less impact on any particular customer's choice to shop in the first place, which is the fundamental problem facing the market today.

The NGS Parties are grateful to the Commission for its continued willingness to address the sometimes difficult issues surrounding competitive energy markets, and we recognize that making substantial changes without the necessary political support is more than merely difficult. Nonetheless, the NGS Parties are disappointed that the Commission tentatively has chosen not to consider, as part of this investigation, issues related to NGDC responsibilities for SOLR service, as they are at the very root of the current lack of robust shopping in the natural gas supply markets in the Commonwealth of Pennsylvania. The NGS Parties urge the Commission to continue its holistic view of the natural gas markets, a view that acknowledges that the present level of competition is neither optimal nor satisfactory.

II. A BROADER SCOPE IS NEEDED

As the Tentative Order demonstrates, there remain a number of operational type issues which make it more cumbersome and more costly for NGSs to do business—most of these are worth the time it will take to rectify them. However, it is equally clear that by addressing only those operational issues, either individually or collectively, and even assuming the best possible outcomes (for competition) on each issue, this RMI process is not likely to result in dramatic improvement in the competitiveness of the natural gas supply markets. That is, resolving these issues will likely make NGS's service less cumbersome and/or less costly, but is not likely to provide a solution to the fundamental market design problem that has handicapped NGSs from the very beginning. So long as there is a SOLR service that requires reconciled cost recovery,

which receives all customers at no cost, and which charges a “fee” in order to leave, there is little chance for robust competition.

Having NGDCs in the supplier of last resort role, as a barrier to the competitiveness of the market, is compounded by the fact that the role of SOLR is considerably broader than the name might otherwise lead one to believe. As the NGS Parties and others have stated so many times before, NGDC’s should be re-labeled the supplier of *first* resort because the NGDC default rate automatically receives all new customers when they sign up, or when they move. This initial assignment is the root cause of much of the other harm that results from having the NGDC in the SOLR role. The NGS Parties are convinced that it would reduce barriers to competition if new customers were required to affirmatively choose a natural gas supplier rather than be assigned to the NGDC rate by default. At the very least, new customers should be allowed to select a non-NGDC natural gas supplier, and be informed of their ability to do so at the onset of natural gas distribution service. While it is true that NGDCs historically have not entertained the notion of allowing for a first switch capability, it does not appear that there are any substantive barriers to doing so.

Importantly, requiring that new and moving customers take service from the SOLR provider serves to entrench the misperception of that service being better or more advantageous than competitive service, and is the sole reason that as many as 10-20% of customers per year are deposited, and re-deposited on default service--with the SOLR paying no acquisition costs. NGSs, however, must spend substantial dollars to motivate these customers to move away from default service, while continuing to face the barrier of the migration rider. Unfortunately, that is the current basis of competition – NGSs seeking to dislodge customers from default service, rather than competing against one another to provide the best value for customers.

Accordingly, the NGS Parties urge the Commission to reconsider the issues listed for investigation, and to include NGDCs exiting the merchant function as a topic for the investigation. If the Commission believes that mandating an exit, from an oversight perspective, is too difficult, or not an appropriate policy, the NGS Parties suggest that the Commission do what it can to encourage, or simply to allow, NGDCs to voluntarily exit. A good first step would be to consider promulgating the regulations required by 66 Pa C.S. § 2207(f), “setting forth the standards for approving an alternative supplier of last resort consistent with the provisions of this Title, including a mechanism to ensure that the rates charged by any alternate supplier of last resort are just and reasonable.” Such regulations would provide some certainty to NGDCs that may become interested in exiting the merchant function and could provide them impetus to proceed under the statutorily provided process for voluntarily exiting the SOLR function.

III. FIRST CHOICE OPTION

As mentioned above, the present configuration of SOLR service, as a supplier of first resort service, suggests another opportunity for modification that could over time help to turn the tide; namely, a First Choice program. A First Choice program asks customers to make a choice every time they make a decision regarding their gas supplier – primarily when customers move or initiate service. The idea is simple: make customers choose their supplier. This concept is not the same thing as a new and mover referral program, which merely asks customers if they are interested in choosing a supplier, even though it would rely upon some of the same infrastructure. Rather, customers are given offers from a list of suppliers that would include default service, but would also list NGSs and their offers, and are asked to choose. The Commission could establish the parameters of the rate offerings that suppliers would have to provide to be part of the first switch program, but the idea is that if customers end up on default

service, it would have be because they affirmatively select it, rather than simply because they are placed on the service as the name suggests--by default. This idea, short of requiring the choice, is the basis of a standard offer program which have been successful in the electric industry in the Commonwealth and are providing customers with one year introductory discount which appears to be attractive to many customers. Other jurisdictions provide similar programs that simply offer the opportunity to switch, with no over incentives, but which are also successful. Regardless of whether the Commission has the desire to implement a first switch program, which has the best chance of voluntarily migrating customers off of default service, it should also re-consider its decision to not address these sorts of referral programs as part of this investigation. Such plans would not eliminate options, but would rather provide customers with more options and would acclimate them to the notion of making an affirmative choice, even if that choice is default service. Accordingly, the NGS Parties ask that such a capability be included on the list of issues to be investigated.

IV. OTHER ISSUES

The NGS Parties support the inclusion of the other issues described in the Commission's Tentative Order and agree that these issues are important, in that they address many of the operational inequities between NGDC's use of their systems to provide SOLR service and NGS use of the very same systems to provide competitive natural gas supply service. For example, some NGDC's transfer operational control of some or all of their off-system storage to third parties who manage that storage and provide returns to the company, and likely to some subset of customers, through some sort of sharing mechanism. However, those companies do not allocate storage assets to suppliers in a manner that would allow them to do the same thing, and in some cases, despite the fact that customers of NGSs pay for those storage assets in the same

manner as SOLR customers, the shopping customers don't equally share in the proceeds from the assignment. It is difficult to find a more fundamental example of the inequity of the current systems that favor SOLR service, on an operational level, and make it more costly and difficult for NGSs to operate. The NGS Parties hope that that RMI process will reach solutions to these sorts of problems.

As part of its investigative process, it will be vital for the Commission to identify the processes it intends to employ as an investigative tool for each issue, assuming that different issues may require different modes of investigation. Doing so will allow all parties to assign appropriate resources to participate in the issues of concern to them.

V. CONCLUSION

As the Commission recognizes, it is critical to regularly review the development of the competitive energy market, and to determine if there are barriers to entry, processes or rules that make operating in a market more costly and/or more difficult. Unfortunately, in the years since the last "look-back", the competitiveness of the market as represented by the percentage of customers shopping, has not markedly improved. While certain initiatives, such as the promulgation of regulations requiring the unbundling of acquisition costs out of base rates, have made SOLR rates incrementally more comparable to NGS prices, they have not resulted in identifiable gains in the numbers of customers shopping. This is convincing evidence that the fundamental problems confronting the market remain. Until we address and resolve these structural problems, it is unlikely that the shopping numbers will improve to levels that even approach those in the electricity markets, which are themselves not optimal.

The NGS Parties urge the Commission to continue to be pro-active in establishing programs to overcome the structural problems we have identified, without the need for

legislative involvement, and which build on successes elsewhere. Asking customers to make an affirmative choice is not a burden – it is an opportunity for growth. Likewise, asking customers if they have an interest in choosing to take service from a competitive supplier is simply one more question to ask during a phone call with a customer. If the Commission views the political reality as being presently unfavorable to movement toward a mandated exit, these are minimal steps that can help. Also, the Commission should consider completing its regulatory assignment to bring certainty to NGDCs that may want to consider a voluntary exit in the form of regulations governing how voluntary exits might occur and how service would be priced afterward. All of these are opportunities to make the customer experience better – whether customers choose to take service via a competitive offer, or to take service from the default service provider, whomever that may be. We again thank the Commission for its efforts to bring more momentum to the competitive natural gas market and we look forward to working with the Commission throughout this RMI process.

Respectfully submitted,



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