

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Rulemaking to Amend the Provisions of :
52 Pa. Code, Chapter 59 Regulations :
Regarding Standards For Changing a : **Docket Number: L-2016-2577413**
Customer’s Natural Gas Supplier :

**COMMENTS OF
NATIONAL FUEL GAS DISTRIBUTION CORPORATION
TO THE ADVANCED NOTICE OF PROPOSED RULEMAKING
ORDER**

I. Introduction.

On December 22, 2016, Pennsylvania Public Utility Commission (“PUC” or “Commission”) entered an Advance Notice of Proposed Rulemaking Order to Amend the Provisions of 52 Pa. Code §§ 59.91 – 59.99 Regarding Standards for Changing a Customer’s Natural Gas Supplier in Docket No. L-2016-2577413 (“ANOPR”). These regulations would *address the process for transferring a customer’s account from a service of last resort (“SOLR”) provider to a competitive natural gas supplier (“NGS” or “Supplier”), from one supplier to another supplier and from a supplier to SOLR service.*¹ The objective of the proposed changes is to align the switching rules in the natural gas utility industry with current regulations in the electric utility industry (“Switching Alignment Proposal”) while preserving safeguards to prevent unauthorized switching of a customer’s account, also known as slamming.

¹ ANOPR, p. 1. The ANOPR also proposes addition of a definition for “Supplier of last resort” to § 59.91 in Title 52 of the Pennsylvania Code. For purposes herein, SOLR is also applied as an acronym for the proposed definition.

For its response to the ANOPR, National Fuel Gas Distribution Corporation (“Distribution” or “the Company”) submits the following Comments. Distribution also supports the Comments of the Energy Association of Pennsylvania (the “EAP”), of which Distribution is a member, filed contemporaneously at this Docket.

II. Comments

Distribution does not support the ANOPR’s Switching Alignment Proposal. The ANOPR minimizes the differences between the gas and electric markets, presuming that retail gas consumers are impacted in the same manner as electricity consumers who are vulnerable to the maladies of a volatile wholesale electric market.² While the effect of the Polar Vortex on retail electric rates is well understood, there has been no showing that the consumers in the retail gas market suffered in any comparable manner.

If retail gas consumers were exposed to the same volatility, it would be reasonable to presume that with faster supplier switching, consumers could respond more quickly to attractive offers or that consumers would have the ability to escape price increases, especially in the context of variable-price contracts. The opposite is true for gas consumers because abundant shale gas supplies, combined with access to primary firm pipeline transmission and storage capacity, have created a gas supply market that is appropriately characterized by lack of volatility. Further, the ANOPR provides no proof that Electric Generation Suppliers (EGSs) are now offering cost savings, value-added services or special products in response to accelerated switching.

² In contrast, the wholesale gas market is a model of stability due to abundant regional shale gas supplies as well as firm pipeline transportation and firm storage capacity held by NGDCs made available to NGSs to serve their customers each month. In Distribution’s case, firm transportation and firm storage capacity is released to NGSs prior to the gas industry’s bid week which serves as the major price discovery event for next month’s wholesale pricing. This timing helps to put NGSs on the same footing as NGDCs with respect to gas trading and portfolio optimization.

Similarly, the need to make timeframes and procedures across the electric and natural gas industries as consistent as possible to avoid customer confusion and frustration is overlaid as a benefit. The Company acknowledges that some consumers and suppliers may participate in both markets, and that for those consumers who obtain both services from the same supplier, the bill the consumer receives from the natural gas distribution company (“NGDC”) or electricity distribution company (“EDC”) acts as the primary proof that service has commenced. However, less than 15% of Pennsylvania consumers receive their bill from the same utility. If the meter read cycles for the NGDC and EDC coincidentally align, consumers might see a contemporaneous switch, but vast majority of the remaining 85% of consumers who receive a bill for a single-commodity will not benefit because they will not see a contemporaneous switch.

Distribution agrees with the Office of Competitive Market Oversight (“OCMO”) that customer satisfaction is key to the success of any retail market.³ However, OCMO’s assertion that the length of the switching timeframes has become an impediment to achieving an effective competitive retail energy market in Pennsylvania is unsupported. OCMO offers no statistical proof based upon customer satisfaction surveys and/or formal complaints,⁴ to substantiate its claim. Since the ANOPR does not attribute comments to specific parties, this may be nothing other than conjecture perhaps based upon the assertions of those that support accelerated switching.

³ ANOPR, p. 4.

⁴ The Company believes that a more thorough analysis of customer satisfaction would measure a variety of retail market characteristics including whether customers believe natural gas suppliers (“NGSs”) provide cost savings, value-added services or special products. To the extent customers are concerned about the switching timeline, it would be helpful to know whether they are concerned about the time required to switch from SOLR service to NGS service or NGS service to SOLR service.

In sum, the ANOPR proposes changes that presume to solve problems that don't exist at considerable expense to NGDCs. Such costs will ultimately be borne by consumers, and this fact should not be ignored because the ANOPR records that consumer representatives expressed general support for accelerating the switching process, but noted that the cost of doing so should be commensurate with the benefits.⁵ Absent a real problem to solve or a guarantee that natural gas suppliers ("NGSs") will offer customers cost savings and/or value-added services or special products, the ANOPR's Switching Alignment Proposal is very likely to produce an ineffective and unpopular end result.

The Company does recognize that the Commission acknowledges it is proposing industry-wide norms that may require significant and permanent changes to NGDC systems.⁶ In order to assist the Commission with its efforts to assess the costs versus the benefits of adopting the Switching Alignment Proposal, the Company respectfully provides the following costs, identified to date, that the Company estimates it would incur⁷ should the Commission, after duly considering the comments filed in response to the ANOPR, choose to move forward with the Switching Alignment Proposal.

A. Business System Modifications

Combined with Pennsylvania's last-in enrollment processing rule, the Switching Alignment Proposal creates the possibility that a consumer could have a different supplier for each of the 21 business days in a typical meter read cycle. While this number is a

⁵ ANOPR, p. 14.

⁶ ANOPR, p. 17.

⁷ Distribution believes it has identified the all of the processes that would be impacted by the Switching Alignment Proposal but reserves the right to update its cost estimate should it determine that other processes are impacted and/or to improve the accuracy of its estimates.

theoretical maximum, other complex scenarios include supply from the same NGS over non-contiguous periods, and more than two suppliers during a month.⁸ The two most obvious changes would be to the switch processing systems (including the customer confirmation letter) and to the billing process to accommodate charges from more than one supplier. Significantly, until advanced metering infrastructure (“AMI”) is installed, the ANOPR suggests that in some cases NGDCs would be required to process changes using estimated readings. Distribution would need to reconfigure its estimation routines to provide for multiple estimated readings between scheduled meter reading dates. The cancel-rebill process, typically invoked to correct for errors in the estimation process⁹ would also need to be upgraded. A number of other calculations that support NGS service to consumers would also need to be modified as well as the interfaces with Distribution’s Electronic Data Interchange (“EDI”) system. As AMI is installed, other system modifications will be necessary, including addition of support to communicate interval measurement via EDI.

The total cost estimate for modifications to Distribution’s business systems to implement the Switching Alignment Proposal is \$1.6 million. Attachment A of the instant filing provides a more detailed breakdown of this cost estimate.

B. Metering Costs

The ANOPR appears to recognize that based upon Pennsylvania’s experience in the retail electric market, a robust implementation of the Switching Alignment Proposal

⁸ The ANOPR oversimplifies the switching scenarios by presuming a simple switch from one NGS to another NGS or between one NGS and the SOLR, making the switch merely a timing issue. This presumed simplification may occur often, but NGDCs need to design for what might reasonably occur.

⁹ Distribution believes its estimation process is highly accurate but when the amount of time elapsed between the estimation date and the last valid meter reading becomes too large, the quality of the estimated meter reading will suffer.

depends upon availability of AMI, which has not been widely implemented in the retail gas market. Accordingly, the ANOPR references an NGS proposal to enable faster switching until AMI is available that would allow one off-cycle switch per month, with the meter information either: (1) being read off-cycle by the NGDC; (2) being read by the customer and reported to the NGDC; or (3) being estimated by the NGDC.¹⁰

Distribution acknowledges that this NGS proposal would at least delay some business system changes. However, in instances where Distribution cannot obtain a valid off-cycle read from the customer, an inaccurate off-cycle estimated read increases the odds of a cancel-rebill.¹¹ A more cost effective means would be to defer implementation of the Switching Alignment Proposal until AMI is available to all of Distribution's customers.

Alarming, the ANOPR lacks the aspect of compromise provided by the NGS proposal in that it does not include the one off-cycle switch per month limitation.¹² Without this limitation, the resultant cancel-rebills to adjust for corrected estimated readings in multiple supplier scenarios will be confusing for consumers and will not inspire confidence in the retail market.

Distribution has not fully assessed the costs of implementing AMI in its service territory, but believes it would be quite substantial. For instance, if the costs of a recent

¹⁰ ANOPR, p. 14.

¹¹ While the end result of the cancel-rebill process is a more accurate statement, the process is administratively complex for both the Company and the NGSs involved. Having multiple estimation periods within a single billing period may also result in multiple cancel-rebills if one or more of the estimated readings is not in line with the cycle reading. With multiple NGSs per billing cycle, the number of data components for cancel-rebills will increase because usage and billing amounts will be broken into partial, rather than full, billing cycles. Both NGDC and NGS business systems will require modification to process this information.

¹² See proposed revisions to 52 PA Code §59.94, ANOPR, pp. 28-29.

(and ongoing) AMI implementation at Southern California Gas¹³ were applied to Distribution's customer base,¹⁴ the implementation cost would be approximately \$39 million dollars, presuming the Company could reach the same economy of scale.

C. Retail Gas Program Changes to Accommodate Switching Alignment Proposal.

Distribution appreciates the ANOPR's recognition that all operational concerns related to accelerated switching have not been addressed and offer the opportunity for the industry to propose innovate ways to make three day switching work.¹⁵ However, Distribution is concerned at the suggestion that the NGDC should serve as a clearinghouse, particularly on a real-time basis. Such an approach, particularly as pertains to pipeline transmission and storage capacity release transactions, may be outside the scope of exceptions the Federal Energy Regulatory Commission ("FERC") provides to state approved retail access program participants¹⁶ or could expose NGDCs to shipper-must-have title violations. Distribution believes that NGSs on its system are well suited to work out capacity issues between themselves and/or access delivered gas on a firm basis from other market participants.

Distribution proposes to take a passive clearinghouse approach relying upon the existing provisions of its tariff. Essentially, the only change Distribution would make would be to decouple capacity release from the nomination daily delivery requirements (DDQs) applicable to NGSs serving the customers. Distribution would continue to

¹³ See *Southern California Gas Company - Advanced Meter – Semi-Annual Report – August 2016* available at https://www.socalgas.com/regulatory/documents/a-08-09-023/SoCalGas_Advanced_Meter_Semi_Annual_Report_August_2016.pdf

¹⁴ The Company would need to install approximately 220,000 AMI devices.

¹⁵ ANOPR, p. 27.

¹⁶ See FERC Docket No. RM08-1-000; Order No. 712 - Promotion of a More Efficient Capacity Release Market (Issued June 19, 2008), Order No. 712-A (Issued November 21, 2008) and Order No. 712-B (Issued April 16, 2009).

release capacity to NGSs prior to bid week on a once per month basis. During each month, the DDQ requirement would change as the NGS-customer relationship changed, e.g., if an NGS (the “Selected NGS”) enrolls a customer following the monthly release process, it would be responsible for obtaining capacity and gas supplies¹⁷ to serve the customer beginning on the effective date of the switch.¹⁸ The Selected NGS would then be assigned capacity for the customer prior to the next month’s bid week. NGSs seeking more capacity prior to the next month’s bid week could post requests for such or bid upon releases from other firm shippers on pipeline Electronic Bulletin Boards (“EBBs”). NGSs who lose customers, e.g. the Current NGS, would have excess capacity and could release their capacity for the remainder of the month via the same pipeline EBBs.¹⁹ Because Distribution provides DDQs on a 6 day forward basis (the next day DDQ along with forecasts for the following 5 days), NGSs should easily be able to forecast changes in capacity requirements. Finally, Distribution could hold some capacity in reserve to release to NGSs pursuant to FERC Order No. 712 retail choice bidding exemptions if they are unable to obtain capacity in the market.

Any month-end imbalances would be resolved at a market rate via Distribution’s existing month cash out. So long as NGSs meet their assigned DDQs, there would be no penalties applied to the month-end imbalance quantity. The ANOPR raises other possibilities but these only serve to complicate matters or create arbitrage opportunities at the expense of SOLR customers.

¹⁷ The capacity released to NGSs provides for firm access to regional shale supplies, particularly at Tennessee Gas Pipeline Stations 219 and 313.

¹⁸ Analogously, the NGS that had been serving the customer (the “Current NGS”) would experience a decrease in the DDQ on the effective date of the switch.

¹⁹ Such NGSs might enroll a new customer to replace the customer lost to a competitor or arrange in bilateral sales agreements, i.e., the NGS selling gas supplies could nominate a bundled delivery (gas supply and capacity) at the city gate to the customer pool of the NGS purchasing gas.

Distribution also believes that it is premature to invest in systems development to support complicated mechanisms that may not be needed because market solutions may meet the needs of NGSs. To the extent that the market fails to address the NGS capacity mismatch, another approach can be considered at some point in the future.

D. Consumer Implications

As a part of its decision making process, the Company suggests that the Commission also give due consideration to the competitive landscape that may emerge. The Commission should hold a technical conference to address whether NGSs will be able to create cost savings that they'll pass along to consumers as a result of accelerated switching and what types of value-added services or special products would be provided to consumers. The Commission should also explain whether it believes value-added services or special products should be energy related or whether non-energy premiums, e.g. airline miles, are acceptable benefits to shopping consumers.

E. Alternative Switching Proposal

As mentioned above, NGSs proposed to enable faster switching until AMI is available that would allow one off-cycle switch per month, with the meter information either: (1) being read off-cycle by the NGDC; (2) being read by the customer and reported to the NGDC; or (3) being estimated by the NGDC. Distribution believes that it can provide another better alternative that would not require AMI, but would provide consumers with an expedited switch. Rather than switching off-cycle, Distribution proposes that NGDCs have the option to effect the switch retroactively to the last meter read date used for billing.

The capacity and gas supply implications of a retroactive switch could be accommodated in the same manner as that for an off-cycle switch. For example, if a customer calls Distribution to switch to SOLR service during the month, the NGS's responsibility for delivering gas to the system for that customer would cease (after three business days). The NGS deliveries for the customer during the month would be "over-deliveries" and would be reconciled at a market rate through Distribution's current cash-out mechanism. A retroactive customer switch from SOLR to NGS or NGS to NGS could be handled in an analogous manner. In either case, the customer would have a reduced waiting period and see the supplier of their choice on their next bill. Distribution believes this approach would eliminate the need for AMI and eliminate or minimize the business system changes, particularly those related to billing and calculation of estimated reads, necessary to support an expedited switching process.

III. Conclusion

Wherefore, Distribution respectfully requests that the Commission consider the foregoing comments in its deliberations over the Proposed Regulations.

Respectfully submitted,



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ATTACHMENT A

Functionality/ Program	Description of Change	IS Hours Including Testing	Total Cost
Enrollment/Drops	Changes to current timing rules for processing enrollment and drop transactions, providing for multiple switches during a calendar month on off-cycle dates, i.e. other business days in addition to the customer's scheduled billing cycle end dates. In addition, changes to replace the current switch verification period with the customer notification process.	500	\$75,000
Cycle 867's	Creation of all partial month usage/reads during the customer billing cycle period accommodating multiple suppliers, i.e. a customer usage quantity for each switch.	400	\$60,000
Cycle 810's	Creation of all partial month billing amounts during the customer billing cycle period accommodating multiple suppliers, i.e. a customer billing amount for each switch.	400	\$60,000
Cycle 820's (UCB POR)	Modifications to payment remittance process corresponding to multiple suppliers during a billing cycle period for customers receiving service from NGSs under purchase of receivables program.	400	\$60,000
Cycle 820's (UCB NON- POR)	Modifications to payment remittance process corresponding to multiple suppliers during a billing cycle period for customers receiving service from NGSs that do not utilize purchase of receivables program.	400	\$60,000
CME 867's	Redesign of Calendar Month Estimate (CME) process used for month-end imbalance resolution to accommodate multiple suppliers during the calendar month.	400	\$60,000
CME 810's	Invoicing modifications corresponding to 867 CME changes.	400	\$60,000
Bill Print	Bill print changes to accommodate at least 20 possible suppliers during the month leading to creation of potential of 3 rd and 4 th pages on customer bills. Bill print would provide a summary NGS charge row that would tie out to detail amounts for each supplier on 3 rd and 4 th pages.	600	\$90,000
DDQs	Daily Delivery Quantity (DDQ) logic would need to be updated, including mid-course correction feature used to minimize month-	400	\$60,000

	end imbalances, to accommodate multiple suppliers as well as off-cycle switch dates.		
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ATTACHMENT A - Continued

Functionality/ Program	Description of Change	IS Hours Including Testing	Total Cost
Capacity Release	Current functionality would be enhanced to provide for a next business day orientation to forecast potential NGS capacity shortages.	600	\$90,000
Automated Meter Reading System	Presuming implementation of Advanced Metering Infrastructure (AMI), processes to validate and transfer data to various systems, including billing, would be built, including integration of current telemetering systems used for large customers.	4,000	\$600,000
Billing Functionality Changes & Reporting	Modifications to bill multiple marketer commodities per month, e.g. value-added services or special products.	1,000	\$150,000
FICA Functionality & Reporting Changes	Modifications to provide multiple-supplier detail on monthly reports.	1,000	\$150,000
Total Systems Development Cost Estimate			\$1,575,000