

# Pennsylvania Public Utility Commission

## Investigation into Competition in the Natural Gas Supply Market

Docket No. I-00040103

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Director

Government & Regulatory Affairs

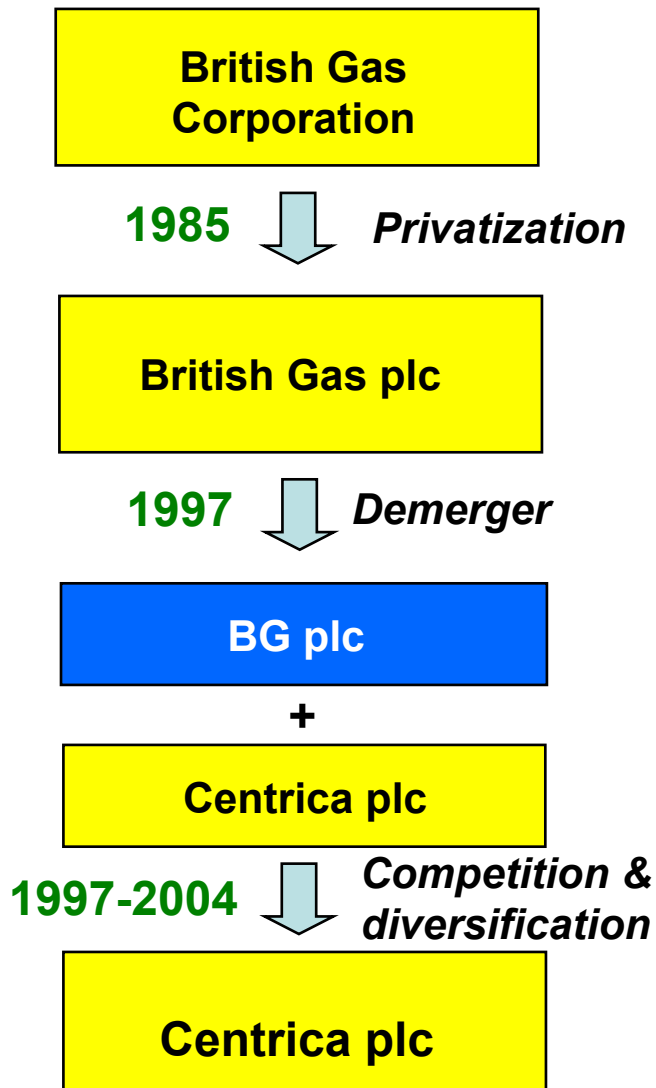
September 30, 2004



Direct Energy.

## Direct Energy – a Centrica company

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- Centrica is a leading provider of energy and other essential services worldwide
  - Serves over 20 million households
  - US\$31bn annual turnover
  - US\$17bn market capitalisation
  - 38,000 employees
  - S&P 'A' credit rating
- [www.centrica.com](http://www.centrica.com)

# Our North American Presence

17,000 business services customers across Canada

30,000 gas customers in Manitoba

★ Main Offices

100 mmcf/day of gas and 0.5 million bbl pa of oil and gas liquids production in Alberta

980,000 gas and electricity customers in Alberta

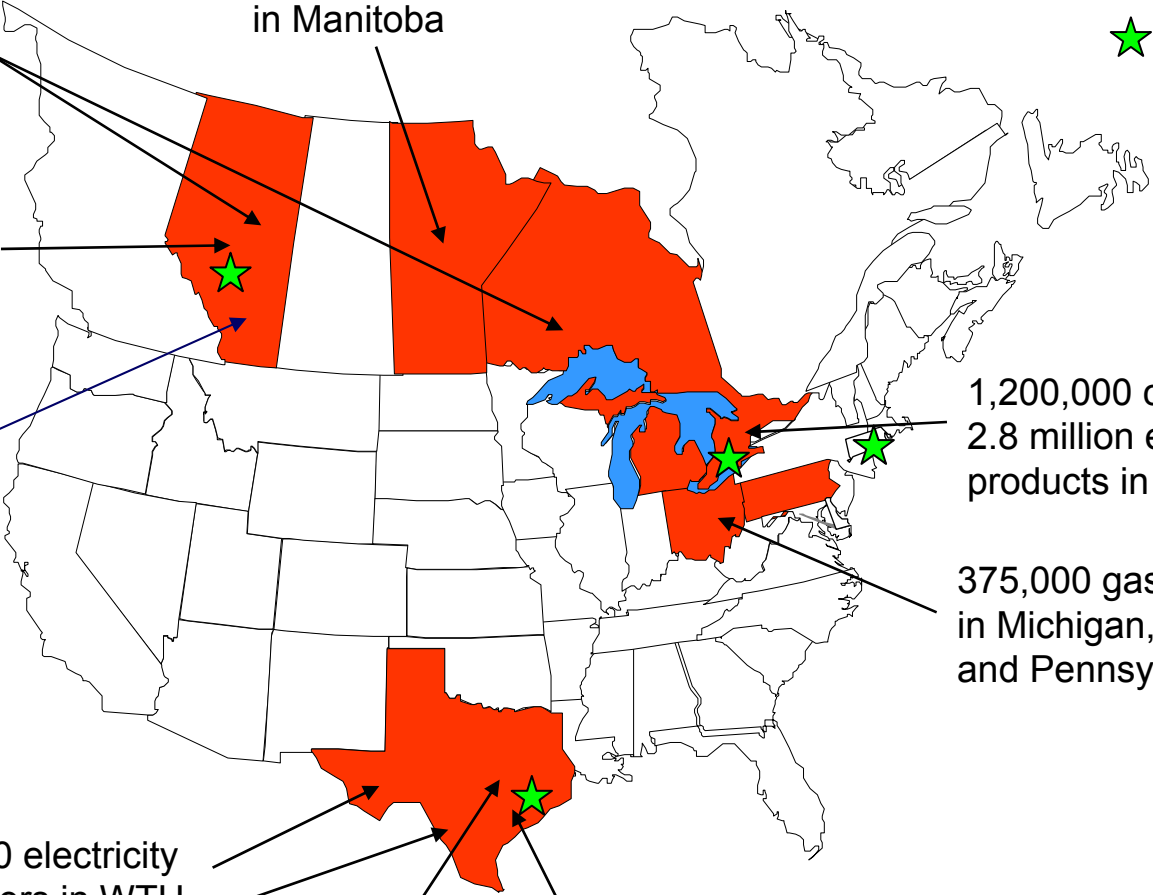
1,200,000 customers taking 2.8 million energy and services products in Ontario

375,000 gas customers in Michigan, Ohio and Pennsylvania

700,000 electricity customers in WTU and CP&L

540 MW generation plant being acquired

127,000 electricity customers in Houston and Dallas/Fort Worth



## Overall Framework

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- Competition is the law of the land in Pennsylvania
  - it is the right tool to deliver the best service to consumers
  - every decision should be made in favor of more competition, not less
- Supplier Of Last Resort (SOLR) should be:
  - understood as a “last resort” option for consumers
  - designed without anti-competitive or anti-consumer restrictions
  - viewed as a full retail obligation
  - adjusted regularly so the price reflects current market prices
- PUC and local utility rules should:
  - not restrict entry by suppliers
  - not set charges or penalties above utility cost
  - not restrict supplier’s ability to market to or service customers

## Commission's Questions

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- Direct Energy responded to a number of the Commission's questions in its written submission
- By making a number of near term changes the market can be made more competitive
- Direct Energy further examines the issue of the SOLR GCR, the SOLR Provider and competition in this presentation
- On the other issues raised by the Commission, Direct Energy and other suppliers in their submissions, Direct Energy is willing to continue to work with the PUC to create a more competitive natural gas market in Pennsylvania

## Key near term changes to improve the market

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- Gas delivery – have supplier’s deliveries match customer demand with monthly imbalance reconciliations
- Local production – allow suppliers access to this resource
- Customer moves – customers contracts should be able to move with them within their utility area
- Utility Billing fees – these should reflect their cost
- Utility Penalties – these should be market based
- Receivables - utilities should purchase receivables at no discount
- Customer renewals – there should be flexibility in setting the price, terms and conditions of renewal offers and renewal information should be sent between 30 – 90 in advance of the expiration date

## How should the SOLR prices be set?

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- Current SOLR GCR prices do not reflect market prices
- SOLR service must be priced “at market” and adjusted regularly, preferably monthly, to reflect current market prices
- SOLR service must include all costs associated with providing the service, including:
  - All procurement expenses, including cost of carrying storage
  - All Customer Migration expenses
  - All Administrative costs
  - All Operation costs
  - All Customer Care costs
- SOLR pricing should be transparent to allow an understanding of the price and the components that price

## Who should be the SOLR Provider?

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- An alternative supplier can be the SOLR provider per the law (Section 2207 of the Gas Competition Act)
- The Commission should approve alternative suppliers to provide SOLR service to Pennsylvania consumers that have not chosen to receive their gas supply from alternative suppliers
- The PUC should consider a Retail Auction to determine who will act as SOLR provider in each gas utilities territory
  - PUC can define preconditions (e.g., financial security)
  - No reason not to have multiple SOLR providers per territory
  - Direct Energy is the provider of Price to Beat Service to approximately 700,000 electric customers in Texas and is the provider of Default Service to 980,000 gas and electric customers in Alberta, Canada



## When is the Pennsylvania market fully competitive?

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- The Commission should establish a set of objective criteria which, when met, will allow the retail natural gas market to be deemed fully competitive
- In a fully competitive market SOLR prices will be “regulated” by competition
- The criteria could include:
  - High levels of customer awareness
  - The ease with which customers can switch suppliers
  - Levels of customer switching rates

## Conclusion

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- Direct Energy commends the PUC for actively reviewing the gas market
- A few near term changes can significantly improve the market
- Don't assume that the local gas utility must be the SOLR provider
- As can be seen from the level of input and attendance today Direct Energy and other suppliers will work with the PUC and other stakeholders to improve the competitiveness of the market
- Focus on making the most competitive market possible – this will bring the biggest benefits to all consumers