PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Proposed Rulemaking: Natural Gas Distribution Company Business Practices	**Public Meeting – April 30, 2009** **2069117-LAW** **Docket Nos: L-2009-2069117** **I-00040103F0002**

STATEMENT OF VICE CHAIRMAN TYRONE J. CHRISTY

Before the Commission for consideration is the initiation of a proposed rulemaking proceeding to promulgate regulations that are designed to encourage increased natural gas supply competition among our jurisdictional Natural Gas Distribution Companies (NGDCs) and licensed Natural Gas Suppliers (NGSs). The genesis of this rulemaking is the Commission's *Report to the General Assembly on Pennsylvania's Retail Natural Gas Supply Market* that was released in October 2005. In that report, the Commission determined that effective competition did not exist in Pennsylvania's retail natural gas market, and subsequently reconvened the stakeholders in the natural gas industry to identify existing barriers to competition. In our SEARCH Final Order and Action Plan issued on September 11, 2008, the Commission identified several initiatives to eliminate these barriers to competition. The rulemaking before us today addresses the standardization of NGDC business practices, operating rules and supplier coordination tariffs (SCT).

Besides issuing these proposed regulations for comment, the Commission also is initiating a stakeholder process to run concurrently with the proposed rulemaking. The purpose of this group is to develop a standard SCT and to make recommendations for the adoption of standard business practices for the retail natural gas market. In order to begin this process the Commission intends to issue a draft SCT and a draft "best business practices" plan for comments and reply comments. A technical conference then will be held to finalize these proposed documents. Additionally, the Commission intends to convene a separate technical working group for the purpose of establishing communication standards.

My main concerns as we embark on this process are the potential cost ramifications of some of the proposed changes in operational rules and practices. Changes are being proposed with regard to imbalance trading, tolerance bands, cash out rules, nominations and capacity access. Throughout this proposed rulemaking it is stated that only those practices and standards determined to be cost-effective by the Commission will be implemented. "Cost effective" is not defined by the Order, and therefore can be subjective. While some provisions may be deemed cost effective to alternative suppliers, they could be detrimental to non-shopping customers. The Order further states that the proposed regulations will limit NGDC cost recovery to reasonable costs prudently incurred that are directly attributable to the implementation of these changes. In order to provide for recovery of these potential costs, the proposed regulations will establish an automatically adjusted surcharge mechanism to be paid by all customers, whether they decide to exercise their right to choose or not. As such, this charge will not be included within the NGDC's price to compare. Also, as the proposed surcharge is to be determined within each NGDC's annual 1307(f) proceeding, these proceedings will become more complicated in the future, potentially increasing the costs of all parties participating in the adjudication of these cases, including the Commission.

What this means in plain English is that we potentially are imposing new non-bypassable costs on Pennsylvania gas consumers so that we can create a more competitive environment for alternative suppliers. If the goal of competition is to level the playing field and provide consumers with choices that could result in cost savings, then I would support such charges. However, if the end results of leveling the playing field is simply to add new non-bypassable costs that otherwise would not have been incurred, then I would be less inclined to support such charges. Alternative gas suppliers have a significant hurdle here to demonstrate that savings are possible with retail natural gas choice in the residential sector, particularly when the NGDCs are required by statute to procure their gas supply under a Commission approved least cost procurement standard with no provision for a profit on that cost. While both NGDCs and alternative suppliers generally obtain natural gas from the same market, alternative suppliers must earn a profit on that gas -- otherwise they would not be in business. The alternative suppliers must find enough efficiencies somewhere in their gas procurement practices to earn a profit while undercutting what has been blessed as a least cost gas procurement by the NGDC.

Therefore, I request parties to consider addressing in their comments, which are due within 45 days of publication in the *Pennsylvania Bulletin,* and in their reply comments due 15 days thereafter, the potential costs involved in the implementation of the directives within this rulemaking. I believe it is incumbent upon the Commission to determine beforehand the economic effect of these proposals.

Because of my concern over the unknown magnitude and nature of these potential costs, I will concur in the result only of this proceeding for the purpose of seeking comments from interested parties.

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DATE	**TYRONE J. CHRISTY, VICE CHAIRMAN**