

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
**Harrisburg, Pennsylvania 17105-3265**

**Re: Natural Gas Distribution  
Companies and Promotion of  
Competitive Retail Markets**

**Public Meeting: January 13, 2011  
2069114-LAW  
Docket No. L-2008-2069114**

**MOTION OF CHAIRMAN CAWLEY**

Before us is the Final Rulemaking Order which reflects our efforts to remove barriers to retail competition in the natural gas market. The staff recommendation for this Final Rulemaking Order should be adopted, with one modification. One important cog in this effort is the need to ensure that the price to compare, and the allocation of costs related to the Supplier of Last Resort (SOLR) service, reflects the full cost of providing this service to SOLR customers.

In the previously proposed Advanced Notice of Final Rulemaking (ANOFR), we listed specific, limited, and well defined gas procurement related costs to be shifted from the distribution rates, where all customers were required to pay for these costs, to the SOLR charges paid by utility customers availing themselves of SOLR service, pursuant to a Gas Procurement Charge (GPC), which was designed to be revenue neutral, thus removing this subsidy previously paid by shopping customers, yet allowing for the fair cost recovery for all prudently incurred utility procurement costs. In this Final Rulemaking Order, these costs include the following items.

- (1) NATURAL GAS SUPPLY MANAGEMENT COSTS, INCLUDING NATURAL GAS SUPPLY BIDDING, CONTRACTING, HEDGING, CREDIT, RISK MANAGEMENT COSTS, AND ADMINISTRATIVE AND GENERAL EXPENSES RELATED TO THOSE ACTIVITIES.
- (2) NON-CHOICE AND SOLR RELATED ADMINISTRATIVE COSTS, INCLUDING EDUCATION, REGULATORY, LITIGATION, TARIFF FILINGS, WORKING CAPITAL, INFORMATION SYSTEM AND ASSOCIATED ADMINISTRATIVE AND GENERAL EXPENSES.
- (3) APPLICABLE TAXES, EXCLUDING SALES TAX.

Given the Commission's stated objective to reformulate the price to compare (PTC) to better reflect all relevant costs incurred by the incumbent natural gas distribution companies (NGDCs) to provide SOLR service, this provision of the ANOFR should be adopted. As noted by the National Energy Marketers Association (NEM), the PTC as proposed will provide consumers with a more meaningful basis upon which to compare utility commodity offerings and competitive supply offerings because it will bear a greater resemblance to market conditions and more fully reflect the utilities' full costs of providing commodity service.

The Energy Association of Pennsylvania (EAPA) and others argued against adoption of these changes. A common criticism by many utilities was that SOLR service benefits both shopping and non-shopping customers, therefore these SOLR costs should be socialized and paid for by all customers.<sup>1</sup> However, these same arguments can be espoused for competitive offers to non-SOLR customers. All customers benefit from the robust availability of competitive offers. As with SOLR service, customers can choose to avail themselves of these opportunities, or pass.

In a similar vein, Columbia argues that customers benefit from the expertise of NiSource Corporation Services Energy Supply Services Department.<sup>2</sup> If NiSource is indeed that proficient at acquiring and managing its supply, then customers will avail themselves of that service – and pay for it. This does not mean, however, that we should socialize the procurement costs of Columbia’s procurement subsidiary, while refusing to subsidize the procurement costs of the Natural Gas Suppliers’ (NGSs) procurement staff, which may be equally adept.

Several parties also argued that, since some SOLR costs are often relatively fixed over the year and thus “unavoidable,” such costs should be socialized.<sup>3</sup> This position ignores competitive equity, since NGSs may also have fixed costs for participating in a market, yet such costs are not socialized. Moreover, whether or not a cost is fixed is not relevant to the designation of who benefits from the service. Clearly, those who use the service should pay for it.

Columbia argues that NGDCs incur costs that are solely related to NGSs’ service, but fails to demonstrate adequately that these costs are unique to NGS service.<sup>4</sup> Columbia contends that, even if they left the merchant function, these costs would continue to be incurred. However, Columbia fails to note that many of these same costs are needed to provide both SOLR and competitive service. Moreover, none of these costs is included in the list of specific and limited costs which the Commission has proposed to unbundle from distribution service. Lastly, Columbia asserts that we are proposing to shift all procurement costs, which is not true. As an example, procurement costs related to storage and transportation capacity, which is used for SOLR service or assigned to NGSs serving their shopping customers, has not been unbundled.

National Fuel Gas Distribution Company (NFG) makes an argument similar to Columbia’s, noting that SOLR staff needs to administer pipeline and storage releases to NGSs.<sup>5</sup> However, this point is moot, since the regulations do not provide for the unbundling of pipeline and storage procurement. Indeed, this order recognizes the importance of transportation and storage for both shopping and non-shopping customers.

---

<sup>1</sup> EAPA at 4, NFG at 3, PGW at 2.

<sup>2</sup> Columbia Comments at 5.

<sup>3</sup> EAPA at 4; Equitable, Appendix A at 2; NFG at 4-5; OCA at 7.

<sup>4</sup> Columbia Comments at 4.

<sup>5</sup> NFG at 5.

NFG comments further that NGDCs must stand ready to serve all customers, while NGSs have the ability to “pick and choose” their customer base.<sup>6</sup> NFG argues that this obligation to stand ready justifies charging all customers for their procurement related costs, regardless of whether they provide supply to the customer. This argument also ignores competitive equity. Moreover, under the order approved today, NGSs must accept all customers responding to an offer, regardless of credit, under the NGDC’s Purchase of Receivables program. Therefore, NGSs also stand ready to serve substantially all customers covered by the NGDC’s POR program, within a NGS’s targeted rate class of customers.

In summary, it is a level playing field for all market competitors that we seek. As noted by NEM, in the absence of full rate unbundling, shopping customers are penalized with a double payment of commodity-related costs—those paid to the competitive supplier from which they are currently receiving service and to the utility from which they are no longer receiving commodity service. Unbundling of utility rates avoids this inequitable result.<sup>7</sup> Lastly, this level of unbundling is consistent with our balanced approach implemented in Pennsylvania’s electricity markets.<sup>8</sup>

**THEREFORE, I move that:**

1. The Law Bureau recommendation be adopted as modified by this Motion.
2. The Law Bureau prepare an order consistent with this Motion.

January 13, 2011

**Date**

---

**James H. Cawley, Chairman**

---

<sup>6</sup> NFG at 4.

<sup>7</sup> NEM at 6.

<sup>8</sup> Final Policy Statement, Docket M-00072009, § 69.1808 relating to default service cost elements.