STEVENS & LEE
LAWYERS & CONSULTANTS

17 North Second Street
16th Floor
Harrisburg, PA 17101
(717) 234-1090 Fax (717) 234-1099
www.stevenslee.com

Direct Dial: (717) 255-7365
Email: mag@stevenslee.com
Direct Fax: (610) 988-0852

December 12, 2013

VIA ELECTRONIC FILING
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Enclosed for filing are the Comments of Washington Gas Energy Services, Inc. in the above-captioned matter.

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

Best Regards,

STEVENS & LEE

Michael A. Gruin

Michael A. Gruin

Encl.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation of Pennsylvania's Retail Natural Gas Supply Market	: : : :	**Docket No. I-203-2381742**

Comments of
Washington Gas Energy Services, Inc.

I. Introduction

Washington Gas Energy Services, Inc. (WGES) is a licensed natural gas supplier (NGS) in the Commonwealth of Pennsylvania and first began serving commercial and residential customers in Pennsylvania in 2010. WGES has served natural gas supply markets since the advent of natural gas retail choice in 1996 in Maryland, the District of Columbia, Virginia, and Delaware. In any competitive market, the establishment of fair and workable rules to facilitate competition is vital. WGES has been an active proponent of fair market rules in Pennsylvania, including participation in the Commission's investigation of the retail electricity market.

WGES appreciates the opportunity to provide comments in this proceeding and commends the Commission on its proactive process and rules, which are clearly designed to encourage the entry of NGSs and the development of well-balanced, fair rules that protect consumers while creating vibrant retail energy competition. In general, WGES believes consumers in the Commonwealth are moving in the right direction in terms of experiencing the benefits and savings of competitive natural gas supply markets. However, WGES would like to make some observations about these markets.

As an initial matter, WGES believes the time is right for the Commission to continue the work it undertook in between 2004 and 2009, when it last evaluated Pennsylvania's natural gas market in a comprehensive way. WGES is grateful for the steps taken pursuant to that investigation. For example, the establishment of the Office of Competitive Market Oversight (OCMO) has resulted in tremendous strides in the retail energy market, mainly in the electricity arena. Other recommended steps resulting from that investigation were not completed, and WGES suggests that it is an opportune time to reexamine issues such as the expansion of Purchase of Receivables programs, issues relating to capacity assignment and release, the formulation of the Price to Compare, and standardization of natural gas distribution company (NGDC) system operating rules. Additionally, the ever-urgent issue of customer education about natural gas choice is ripe for discussion. Moreover, the Commission should examine the role of the NGDCs as default service providers, and consider removing them from this role completely.

WGES urges the Commission to first examine these core issues before examining enhancements that have been discussed in the context of the electric market. Enhancements such as Seamless Move and Accelerated Switching Timeframes may prove useful, but only after the work has been done to make the core operations of the utilities vis-à-vis suppliers operate in a workable fashion.

II. Comments Addressing Specific Commission Questions

1. ***What is the current status of retail natural gas competition for customers, by class and by service territory, and for NGSs? For each customer class and service territory, how accessible are competitive suppliers?***

The Commission's Monthly PAGasSwitch Update tells much of the story on one sheet of paper. As of October 2013, nearly 100 percent of the industrial gas load was being supplied by a competitive retail supplier. However the story for residential and smaller commercial customers is mixed, at best. A low percentage of residential customers are shopping for natural gas compared to the higher percentages that are shopping for electricity. While nearly 30 percent of residential customers are shopping in the Columbia Gas service territory, the numbers are smaller in every other NGDC's territory; in some territories, there are no residential customers shopping at all. The story is similar with regard to smaller commercial customers: in some territories, these customers are shopping at rates below four percent, though in other territories the shopping rates climb above 30 percent.

More of the story can be found on the Commission's PAGasSwitch website, where residential customers can shop for service supplied by a NGS. Residential customers navigating this website will find no suppliers making offers to serve them in territories like Equitable Gas and Central Penn Gas, and only a few suppliers who are available to serve them in territories like People's and National Fuel. In the territories with the largest number of suppliers making offers via PAGasSwitch.com, Peco and Columbia Gas, fifteen suppliers list offers. This is a far cry from the dozens of suppliers making competitive offers to serve electricity customers.

The data contained in the Monthly PaGasSwitch Update and on PAGasSwitch.com reveal that the status of retail natural gas competition is not well developed, and suppliers are not as accessible to customers as they would like to be. While industrial customers are exercising their energy options at high rates, as they have since the advent of energy choice, smaller customers are not exercising their options.

2. ***Are currently effective NGDC rates properly structured to reflect the separation between the costs of the NGDC's role as a distribution utility and its role as a Supplier of Last Resort (SOLR)?***

NGDCs' default service rates should reflect the full retail costs of providing SOLR service. To the extent that NGDC rate unbundling, which fully breaks out and properly allocates these costs, has not occurred, there is an unfair advantage to the utilities, and the Commission should undertake efforts to ensure NGDC rates are fully comparable to NGS rates.

3. ***Does the existing market design of NGDCs serving as the SOLR present barriers that inhibit customer choice or prevent suppliers from fully participating in the retail market?***
4. ***Should NGDCs continue in the role of SOLR?***

The role of the NGDC as the default service provider presents a barrier to customer choice and should be discontinued. Keeping the utility as the default service provider perpetuates the false impression that suppliers are competing against the utility's service instead of competing against each other to provide the best service. In essence, the role of an NGDC as the supplier of last resort is a misnomer; in its current role the NGDC serves as the supplier of *first* resort.

Ohio and Georgia serve as examples of jurisdictions in which natural gas utilities have exited the supplier of last resort function. In Ohio, the utilities used a phased approach to exit the natural gas merchant function. There, the process began with a series of wholesale commodity auctions – the Standard Service Offer auctions, through which suppliers bid to provide wholesale volumes to customers. Thereafter, a series of Standard Choice Offer auctions were held, through which suppliers bid to provide the commodity directly to customers. The results of the Ohio process have been favorable.

In Georgia, the Atlanta Gas Light Company exited the merchant function in 1999. The process in that state began with a random assignment of customers to a natural gas marketer based on the marketer's market share at the time. The Georgia Public Service Commission created an interim pooler to serve as a SOLR in the event a supplier could no longer provide service. Additionally, Georgia has created a regulated provider to serve low-income and high-risk customers who cannot receive service from a supplier. Though the process began with some challenges and confusion, the exit of AGL from the merchant function has proven successful over time.

5. ***Are there enhancements and updates to the current SOLR model that would further improve the state of competition within the retail natural gas market?***

    a. ***Are there opportunities through the potential restructuring of the SOLR model and retail gas market to encourage expansion of natural gas distribution facilities into areas of the Commonwealth that do not currently have access to natural gas facilities?***

WGES supports the expansion of natural gas distribution facilities to serve customers who currently do not have access to natural gas service. The economic and environmental benefits that could result from natural gas expansion are worth exploring in detail. Such an expansion would result in increased natural gas load, which in turn would entice more NGSs to enter the market. The Commission should explore tariff provisions that would provide incentives and encouragement for the NGDCs to expand their distribution infrastructure.

    b. ***Are there changes to the retail natural gas market that the Commission can undertake de novo through regulation or policy that would promote retail natural gas competition?***
    c. ***Are there changes to the retail natural gas market that the Commission can undertake de novo through regulation or policy that would remove barriers to retail natural gas competition?***

The Commission has already examined many issues related to the retail natural gas market, and WGES believes that many of the solutions that were discussed in Docket No. L-2009-2069117 and Docket No. I-00040103F000 should be revived for further discussion and examination. The most significant change WGES would recommend that the Commission undertake de novo is to establish a process for NGDCs to exit the role of supplier of last resort and focus on the distribution function. Many of WGES's suggestions for improvements to the Pennsylvania retail gas market will be addressed under Question # 8.

d. What legislative changes should be made to further improve the retail natural gas market in Pennsylvania?

Several legislative changes may need to occur in order to improve the retail natural gas market in Pennsylvania. Important changes are pending before the Pennsylvania General Assembly in House Bill 1188 of 2013. This bill would address how NGDCs recover their purchased gas costs, eliminate the migration rider charged to customers who switch to a competitive supplier, and provide that an NGDC may recover all reasonable costs incurred to implement customer choice. If passed, HB 1188 would do much to help improve Pennsylvania's retail gas market.

In addition to the provisions of HB 1188, additional legislative changes are required to implement changes that will enhance the retail gas market in Pennsylvania. While it is clear that the Pennsylvania General Assembly contemplated that the NGDCs would exit the merchant function,[1] the General Assembly retained language in the statute that references NGDCs' obligations to pursue a "least cost procurement" strategy to secure the natural gas supplies to meet the needs of customers.[2] Accordingly, a legislative change likely is needed to clarify that gas procurement may be handled by suppliers under reasonable market conditions.

[1] "[T]he commission shall allow retail gas customers to choose among natural gas suppliers and natural gas distribution companies *to the extent that they offer such natural gas supply services*." 66 Pa.C.S. § 2203(2) (emphasis added).
[2] 66 Pa.C.S. § 1318.

Additionally, a legislative change should be developed that would eliminate the absolute requirement that NGSs accept releases, assignment, or transfers of capacity from NGDCs as a condition of participating in the retail market. The Commission should have the discretion to consider upstream market conditions, particularly in light of the advent of shale gas resources, and determine if mandatory capacity assignment is necessary for customer choice. In some instances, such as where a NGS contracts for firm capacity, mandatory assignment is a financial and operational constraint on supplier operations and is a barrier to market entry and participation. With a more discretionary capacity assignment policy, a supplier will have more discretion in choosing whether to accept a NGDC's assignment of capacity for a particular time period and pay the same price the NGDC pays, or to make other arrangements for sufficient capacity to serve its customers. Where it is found beneficial to competition to implement mandatory capacity assignment, the methodology used to calculate the amount of capacity that is assigned and the costs associated with this capacity must be fair and reasonable.

It is not clear if a legislative change is required to provide relief to suppliers who must pay high levels of financial performance security to NGDCs as a condition of maintaining their NGS licenses, but this may be a desired area for change. Alternatively, the Commission could review and make changes to NGDC security requirements, mitigate the barriers to entry such very high security requirements create, and standardize the inconsistent forms of security that may be required across utilities.

WGES believes the Commission has the authority to require the NGDCs to implement Purchase of Receivables programs that can be implemented in such a way as to avoid questions arising under 66 Pa.C.S. § 2205(c)(5). Accordingly, WGES believes that no statutory change is needed in order for the Commission to order POR programs in all NGDC service territories.

6. ***Are there outcomes from the Commission's recently completed electric RMI that would be applicable and useful to implement in the retail gas market? To the extent possible, please provide comments on the following topics:***
   a. ***Seamless Move***
   b. ***Accelerated Switching Timeframes***
   c. ***Standard Offer Program***
   d. ***Low-income customer shopping***
   e. ***Expanded Consumer Education about shopping***
   f. ***Any additional RMI initiative that would translate well to the retail natural gas market.***

WGES believes the Commission should first examine core operational issues that limit the retail natural gas market, and then follow this examination with an evaluation of retail market enhancements that may be beneficial to suppliers and customers. For example, initially the Commission should devote much of its time and efforts to examining issues relating to capacity assignment, imbalance trading and penalties, consolidated billing processes, purchase of receivables, and processes for suppliers to enroll and drop customers. If these and other core issues are not resolved, then some of the retail market enhancements listed will not be as effective as they would otherwise be. With that being said, WGES appreciates the steps the Commission has taken in the electric RMI to increase the robustness of the retail electric market, particularly steps to educate customers about their energy options. Stemming from a strong customer education effort, other enhancements will assist customers to exercise their natural gas choices, so long as the enhancements are cost-effective.

7. ***To take advantage of the opportunity that is present throughout the Marcellus Shale resource, should NGDCs and NGSs be encouraged to explore opportunities with natural gas exploration and production companies?***

A strong competitive market would itself create incentives for NGSs to work with producers to fully bring to market the lowest cost sources of natural gas supply. Additionally, if the NGDCs were to exit the SOLR function, the question of supply would become a completely competitive issue. The Commission should focus on creating a strong competitive market in which the NGDCs do not serve in the SOLR function, thereby creating an environment ripe for this type of partnership with exploration and production companies.

8. ***Recognizing that the Commission withdrew the proposed rulemaking addressing NGDC business practices at Docket No. L-2009-2069117 and committed to commencing a new proposed rulemaking on these issues, please provide comments on the continued need to address standardized supplier tariffs and business practices with regard to imbalance trading, tolerance bands, cash out penalties, nominations and capacity.***

WGES believes there is a continued need to address the standardization of NGDC business practices and supplier tariffs. Standardization across NGDCs will eliminate barriers to entry into the Pennsylvania natural gas market and will allow NGSs to operate more efficiently across multiple NGDC territories. While there may be some individual NGDC practices, tariff provisions, and operational requirements that may be more costly to standardize than warranted, there are many areas that would greatly benefit the market and gas customers if standardized. Accordingly, WGES believes the Commission should allow for some flexibility, but require standardization in areas that will likely lead to a more robust and competitive market. In general, WGES is supportive of the proposed regulations published by the Commission in Docket No. L-2009-2069117. Should the Commission decide to re-publish those proposed regulations or publish others, WGES would submit specific comments.

Capacity

As noted above, there are core issues related to gas service in Pennsylvania that the Commission should explore, related to standardization across NGDCs. First, the Commission should evaluate the various methods of capacity assignment and release practiced by the individual utilities. The practices are anything but standard. For example, in some NGDC service territories, capacity is assigned based upon a peak day calculation of each customer's needs. In other territories, capacity is assigned based upon a methodology that more closely resembles the customer's average winter's day usage.

WGES is supportive of the Commission's proposed regulations in Docket No. L-2009-2069117 that provided, "A NGDC shall provide full access to pipeline and storage capacity and will support daily nominations and delivery requirements that reflect current pool consumption conditions." In general, WGES supports capacity assignment in which NGDCs would take into account an NGS's own upstream capacity under contract, and a form of capacity allocation that is equitable to all suppliers and does not provide undue incentive for the customer to remain with the utility. Such a methodology avoids the situation experienced in some NGDC territories, where the capacity assignment discourages heat-sensitive customers from switching to a supplier. However, WGES recognizes that capacity assignment according to a heat sensitive demand curve may be more appropriate for some NGDCs, in which case WGES would support capacity assignment on an NGS market share basis, where a "slice of the system" pipeline and storage capacity allocation would follow the customer.

Other business practices

WGES also is supportive of the creation of a uniform supplier tariff, but acknowledges that some divergence may be necessary on a utility-by-utility basis. WGES also supports the creation of a program of imbalance trading. Additionally, WGES is supportive of the tolerance band, cash out procedures and penalties proposed in Docket No. L-2009-2069117.

WGES notes that there are significant transactional inconsistencies among the NGDCs that make it difficult for suppliers to serve customers across multiple service territories. Some of the inconsistencies can make it difficult to serve one customer who may have locations in multiple service territories. For example, some NGDCs have instituted pooling thresholds under which an NGS must secure a certain amount of load before the NGDCs will allow the NGS to start serving any customers at all. Where a threshold exists at over 50,000 therms or 50 customers, some customers of an individual NGS may have to wait for months before service begins, so that the customer's NGS can secure other customers to reach the threshold. Other NGDCs do not require load thresholds to be met.

Another example of transactional inconsistency relates to switching deadlines and paperwork. For some utilities, as long as a customer is enrolled 12 days before the start of the month, the NGS can start serving the customer on the first day of that month, and the paperwork may consist of a one-page form. In other NGDCs, the enrollment deadline may be up to two months in advance of the service start date, and the paperwork may consist of six pages. Other inconsistencies exist across the NGDCs as well, and WGES supports any effort to reduce them to the extent practicable.

Purchase of receivables

Currently, NGDCs have the option to offer Purchase of Receivables programs to NGSs. As noted above, WGES believes the Commission can require the NGDCs to implement Purchase of Receivables programs that can be implemented in such a way as to avoid questions arising under the "forward payment" language in 66 Pa.C.S. § 2205(c)(5). Accordingly, WGES urges the Commission to view Purchase of Receivables as an area for standardization, where implementation of POR programs should be mandatory for all NGDCs.

III. Conclusion

WGES appreciates the opportunity to provide initial comments in this matter, and applauds the Commission for opening a new investigation of the status of the natural gas retail market in Pennsylvania. WGES looks forward to further participation in this investigation.

Respectfully Submitted,

Harry A. Warren, Jr.
President
Washington Gas Energy Services, Inc.
13865 Sunrise Valley Drive
Suite 200
Herndon, VA 20171-4661