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December 12, 2013

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Second Floor
Harrisburg, PA 17120

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

Dear Ms. Chiavetta:

Enclosed for filing with the Commission is PECO Energy Company's Comments on the Commission's Order, regarding the above referenced Case. Thank you for your time and attention on this matter.

Very truly yours,

Michael S. Swerling
Assistant General Counsel
for PECO Energy Company

MSS/adz

cc: Dan Mumford
Kirk House

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DEC 13 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**COMMENTS OF PECO ENERGY COMPANY**
**ON THE COMMISSION'S ORDER**

**Introduction**

PECO Energy Company ("PECO" or the "Company") hereby submits comments to the Pennsylvania Public Utility Commission's ("Commission") September 12, 2013 Order[1], which initiated the Investigation of Pennsylvania's Retail Natural Gas Market. PECO appreciates the opportunity to respond to the important questions raised in the Order. Accordingly, Section I of these comments describes PECO's perspective on the current status of retail natural gas competition and the role the natural gas distribution company ("NGDC") as supplier of last resort ("SOLR"). Section II provides responses to the specific questions posed in the Order.

**I. Natural Gas Competition in Pennsylvania**

Natural gas deregulation in Pennsylvania began in 2000 and accelerated in 2008 after the Commission issued its Stakeholders Exploring Avenues for Removing Competition Hurdles ("SEARCH") Final Order and Action Plan ("Search Order").[2] Since then, Pennsylvania has

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[1] See the *Investigation of Pennsylvania's Retail Natural Gas Supply Market* Order, Docket No. I-2013-2381742 (Order entered on September 12, 2013).

[2] See the Commission's Final Order and Action Plan regarding its *Investigation into the Natural Gas Supply Market: Report on Stakeholder's Working Group (SEARCH)*. Final Order and Action Plan entered on September 11, 2008 at Docket No. I-00040103F0002.

witnessed a 13% growth in natural gas shopping.[3] In PECO's service territory, it has grown from 2,254 customers in 2008 to approximately 60,012 customers as of November 2013.

In terms of the total switching at the time of the SEARCH Order, in 2008 PECO had 450 customers switching daily, or an average of 2 customers switching per day. As of November 2013, PECO has 28,718 new customers shopping for gas, or an average of 122 customers switching daily.

The increase in the number of customers shopping in PECO's service territory is directly related to the number of natural gas suppliers ("NGS") available to serve them. In 2008, PECO had 4 NGSs serving retail gas customers. Today, 26 NGSs are serving customers in PECO's service territory.

This growth is worth noting, given that much of it began in 2008. It is the result of the Commission, suppliers, NGDCs, statutory advocates and stakeholders working together on several initiatives to support the expansion of the competitive retail natural gas market in Pennsylvania.

PECO has actively participated in this process. For example, PECO has implemented a zero-discount (after recovery of implementation costs), nonrecourse, purchase-of-receivables ("POR") program, electronic data interchange ("EDI") transactions to enhance the ability of NGSs to obtain prospective customers' historic usage, and eligible customer list improvements. In addition, PECO holds quarterly meetings with participating suppliers, to allow a forum for NGSs and PECO to discuss questions or issues with PECO's customer choice programs.

PECO supports competitive markets, and looks forward to continuing to work with the Commission and other stakeholders to ensure the sustainable growth and success of natural gas

[3] Taken from the Commission's *PA Gas Switch* website.

retail competition in Pennsylvania. As such, PECO believes any major shift in the existing SOLR policy must be considered carefully and implemented thoughtfully, and must make sense both for the short-term and long-term. Transitioning from the current model to any fundamentally different model must be managed closely to minimize risks and uncertainty, as well as costs to customers, suppliers and NGDCs. Moreover, if the Commission ultimately determines that fundamental changes to the model are appropriate, then the timing of any such changes must be managed carefully to avoid interference with existing natural gas procurement contracts that could result in stranded costs to customers and NGDCs.

PECO also believes that any change in the SOLR model must comport with all of the Commonwealth's long-term policy goals for natural gas. The General Assembly and the Commission have long recognized that competitive market benefits must be properly balanced with customer interests. The Natural Gas Choice and Competition Act ("Competition Act")[4] was enacted to benefit customers by providing competitively priced natural gas and ensuring universal service. Accordingly, PECO believes that any changes the Commission proposes to the existing SOLR model must balance and support all of these goals. Finally, any fundamental change to the current model likely would necessitate statutory and regulatory changes, which must be fully vetted through legislative and stakeholder processes.

[4] See 66 Pa.C.S. §§2201-2211.

## II. Responses to 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?**

With respect to the current status of retail natural gas competition in Pennsylvania, recent collaborative efforts by the Commission, NGDCs (including PECO) and other interested stakeholders, has set the foundation for sustainable natural gas competition growth in Pennsylvania. These efforts include the creation of OCMO, implementation of rules for POR programs, and various rulemakings that enhanced and facilitated a fair and balanced playing field for suppliers. Consequently, since deregulation began in 2000, 13% of natural gas customers are currently shopping in Pennsylvania.

In PECO's service territory, a significant market improvement happened after the expiration of electric rate caps in 2010. Many suppliers that provide both gas and electric services leveraged dual service customers by offering competitive deals for both services. Accordingly, the total amount of shopping customers has increased from 2,254 in 2008 to 60,012 by the end of November 2013. The table below explains that 11.5% of residential customers are shopping, and 19.3% of commercial customers[5] are shopping. For November 2013 YTD, this equates to a combined weighted average of 12.3% of customers that are shopping in PECO's service territory. This is consistent with the percentage of total gas customers currently shopping in the Commonwealth. The table below also shows an upward trend over the past three years, which proves that natural gas competition has grown and will continue to do so in PECO's territory.

[5] This figure excludes PECO's large commercial and industrial customers who are all shopping and currently participate in PECO's High Volume Transportation ("HVT") program.

**PECO Shopping Statistics Over the Past 3 Years**

| Year* | Residential Customers Shopping | % of Customers Shopping | Commercial Customers Shopping | % of Customers Shopping | Industrial Customers Shopping** |
|---|---|---|---|---|---|
| 2011 | 17,510 | 3.9% | 6,368 | 15.5% | All |
| 2012 | 45,128 | 10.0% | 7,547 | 18.2% | All |
| 2013 | 52,047 | 11.5% | 7,965 | 19.3% | All |

*As of December 31, 2011, December 31, 2012, and November 30, 2013, respectively.

> **This market has fully matured because all of PECO's large commercial and industrial customers have been shopping for years. There were 906 industrial customers as of November 30, 2013.

The number of NGSs actively serving customers in PECO's service area also increased from 4 in 2008 to 26 in 2013. Having 26 NGSs allows access to a variety of prices and contract options for customers. Of those NGSs:

- 3 serve commercial customers;
- 1 serves residential customers;
- 22 serve both commercial and residential customers; and
- 19 serve electric and gas customers.

While PECO believes that natural gas retail competition has seen its largest growth over the past few years, the Commission's Electric Retail Markets Investigation ("RMI") and natural gas supply and infrastructure expansion efforts provide guidance on potential paths to increase natural gas competition going forward.

With respect to the accessibility of NGSs, competitive suppliers are accessible through a number of means in PECO's service territory. PECO's website contains a comprehensive list of active suppliers, which is updated quarterly.[6] Customers can click on the name of a particular supplier, which serves as a link to the supplier's website. PECO's website also contains a *Gas*

[6] The specific website address is:

*https://www.peco.com/CustomerService/CustomerChoice/Pages/NaturalGasSuppliers.aspx*

*Price to Compare* ("PTC") tool that helps customers evaluate potential savings available from competitive suppliers. In addition, the Commission's *PA Gas Switch* website displays NGS information for customers including the terms of their offers. The Company's customer service representatives are also trained to inform customers where they can obtain information about suppliers and competition.

**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)?**

As a result of recent rate filings,[7] NGDCs were required to unbundle procurement costs, and this has been appropriately addressed under the Commission's watchful eye. PECO's currently effective rates are properly structured to separate costs between the Company's distribution function and its SOLR function. PECO's natural gas procurement costs were removed from distribution base rates and included in the Commodity Charge portion of PECO's Purchased Gas Cost ("PGC") rate, effective June 1, 2013. These procurement costs formulate a rate called the Gas Procurement Charge ("GPC").

The Commodity Charge portion of the PGC applies to default service customers, not to those who shop with another supplier. As a result, procurement costs, which are included in the Commodity Charge, increase the PTC, which can promote shopping. In addition, shopping customers can be assured that they are not double paying for procurement costs (from both their NGS and from the distribution company). Regarding the removal from distribution base rates of

[7] See the Revised Final Rulemaking Order at Docket No. L-2008-2069114, *Natural Gas Distribution Companies and the Promotion of Competitive Retail Markets*, in which the Commission adopted new regulations at 52 Pa.Code §§ 62.221 through 62.225. Included in these regulations are requirements for NGDCs to unbundle their natural gas procurement costs from base rates and recover them from default service customers through a Gas Procurement Charge, which is included in the Price to Compare.

uncollectible expenses and the resulting creation of a separate Merchant Function Charge ("MFC") applicable to default service customers, PECO will implement its MFC by April 14, 2015 because the Company has an existing, Commission-approved natural gas POR program with no defined term length. This provision was approved at Docket No. P-2012-2328614.[8]

**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?**

The SOLR function neither inhibits competition nor prohibits NGSs from participating in the market. Indeed, PECO believes that having NGDCs serve as SOLRs makes sense at this stage of the market's development for the following reasons:

1) NGDCs perform important customer protections, such as the essential market reliability function that PJM provides for the electric industry;

2) NGDCs provide more flexible creditworthiness determinations for NGSs entering the market;

3) NGDCs have made recent tariff changes that enhance supplier participation; and

4) NGDCs provide suppliers with opportunities for cost savings.

<u>NGDCs perform important customer protections</u>

Participants in PJM[9] currently maintain credit (to protect customers in situations where a supplier fails to serve) equal to the highest exposure experienced in the past year. This is

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[8] <u>See</u> the Commission's Order at Docket Nos. P-2012-2328614 and C-2012-2331084, *Petition of PECO Energy Company – Gas Division – Pursuant to 66 Pa. C.S. 1308(a) For Approval of its Proposed Tariff Revisions*, in which PECO's unbundling of its procurement costs was approved by the Commission on April 18, 2013.

[9] PJM Interconnection is a regional transmission organization ("RTO") that coordinates the movement of wholesale electricity in Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. As a neutral, independent party, PJM operates a competitive wholesale electricity market and manages the high-voltage electricity grid to ensure reliability for more than 60 million customers. PJM's long-term regional planning process identifies the most effective and cost-efficient improvements to the grid to ensure reliability and economic benefits on a system wide basis.

normally calculated as the sum of the highest three consecutive weekly bills. Once a credit amount is calculated, participants are required to establish their credit by submitting cash collateral, letter of credit, guaranty, and/or satisfying a creditworthiness evaluation to PJM. PJM regularly monitors creditworthiness and reviews it at least annually. NGDCs currently perform these functions for gas customers.

Pursuant to this function, if an NGS fails to meet its obligation to deliver gas to its customers, PECO stands ready to manage that failure by using the security posted to procure and deliver gas to those customers. NGSs must post enough security to address this risk before they enter the market. Any new structure must include an orderly process for handling these protections for customers, including the continued provision of service, in the event a supplier goes out of business.

PJM also is responsible for the reliable operation of the Bulk Electric System within its Reliability Coordination Area in accordance with NERC Standards, regional policies and standards. NGDCs currently provide this function to gas customers. More specifically, PECO provides a valuable balancing service, managing assets that allow for vast swings in demand annually, monthly, daily and intraday. To do this, PECO utilizes 6 interstate storage contracts, 12 transportation contracts and liquid natural gas ("LNG") and Propane peaking facilities to meet customer demand requirements ranging from as low as 90,000 dth to as high as 800,000 dth per year.

Because PJM is not applicable to the natural gas industry, NGDCs perform these important functions in their respective service territories. Therefore, unless the current model is appropriately revised, NGDCs should remain in the SOLR function.

If the Commission ultimately determines that fundamental changes to the model are warranted, then the timing of any such changes must be managed to ensure that they do not interfere with existing natural gas procurement contracts. Finally, PECO notes that Pennsylvania law provides that an alternative supplier may be selected by the Commission to assume the role of SOLR, subject to certain provision. However, legislative changes will likely be needed if the Commission decides to appoint an alternative SOLR(s).

NGDCs provide flexible licensing analyses

The Commission recently revised the regulations for licensing requirements, to allow NGS applicants more flexibility in posting security to NGDCs.[10] For instance, NGSs may post alternative forms of security such as receivables, which are less marketable than cash. Having more flexible rules that facilitate market entry removed a significant barrier for suppliers and shifted a risk under which existing NGDCs are able to operate. Because of more flexible rules like this, PECO has deemed more startup suppliers (who lacked assets to pass a normal creditworthiness test) as being creditworthy to deliver natural gas in its service territory.

NGDCs provide opportunities for cost savings

Regarding cost savings under the existing SOLR model, NGSs benefit from selling their uncollectibles to NGDCs (through POR programs) in a manner that removes barriers to effective competition. NGSs sell their receivables to NGDCs at no discount (other than for the cost of the POR system), resulting in NGDCs taking on collection activities associated with the receivables. This allows the NGS to dedicate more time, money and resources to further their marketing efforts. NGDCs also perform consolidated billing for NGSs, which allows suppliers to avoid

[10] See *License Requirements for Natural Gas Suppliers*, at Docket No. L-2008-2069115. (Order entered on June 17, 2010). The Order revised section 62.111 of the NGS licensing regulations. Section 62.111 sets forth the types of security that may be accepted to satisfy the statutory requirement for licensing as a NGS. The revisions helped to better balance the ability of a NGS to provide adequate security to maintain its licensed status with the NGDC's risk of financial loss in the event of supplier default. Specific revisions included: (1) the use of NGS accounts receivables in a Commission-approved POR program to satisfy the security requirement; and (2) the development of reasonable criteria for NGDCs to use in adjusting the level of security that a NGS must have to maintain its license.

substantial back office/overhead costs. These cost reductions have enhanced the ability of suppliers to remain in the marketplace.

NGDCs have made competitive enhancements to their Retail Gas Service and Supplier Coordination Tariffs

Recent enhancements to NGDC gas tariffs also have reduced barriers to competition. For instance, through PECO's Gas Service Tariff, unbundling natural gas procurement costs from base rates and placing them into the PTC created a more apples to apples comparison with NGS offers.

PECO's Supplier Coordination Tariff also has provisions that remove barriers to NGS maintenance in the marketplace. Under PECO's Low Volume Transportation ("LVT") or Customer Choice program, suppliers are assigned a monthly Aggregate Daily Delivery Quantity ("ADDQ") for their pool of customers. The ADDQ does not change for the calendar month. Thus, suppliers must deliver a fixed quantity of gas every day of the month to its customers. If a supplier cannot deliver the full ADDQ amount to its customers in the winter (when gas is more expensive and more limited in supply), PECO will make up the difference by supplying PECO gas to the customers. The supplier repays PECO for this shortfall, in kind, during the summer when gas is cheaper and in more prevalent supply. In addition, if a supplier does not want to hold a payable on its books for the entire injection season, it also can participate in the Accelerated Payback program[11] designed to shorten the payback period.

[11] Upon the request of an NGS, PECO may adjust the NGS's ADDQ to accelerate the elimination of aggregate carry-forward volumes during April – August instead of April – October. See Rule 11.10.2 of PECO's Supplier Coordination Tariff.

**4. Should NGDCs continue in the role of SOLR?**

The Competition Act does not assume that Pennsylvania's SOLR model would be static or unchanging. Indeed, while the Competition Act recognized the importance of the NGDC as a supplier of last resort, the role of the NGDC as the SOLR was not frozen in the default service model, and the Commission may select an alternative SOLR(s). See 66 Pa.C.S. § 2207(a), which would require the Commission to appoint an alternative supplier(s) before removing NGDCs from the SOLR function.

As discussed in response to Question No. 3, PECO believes that the current retail market design, as implemented in PECO's service territory, incorporates a number of features that facilitate the ability of NGSs to offer competitive rates and varied products. NGDCs also should continue their SOLR function until such time as PJM or another independent oversight body assumes the reliability/credit functions for NGDCs.

While PECO currently is the SOLR in its territory, it does not necessarily have to fill that role in order for a default service model to function well and deliver benefits to customers. However, suddenly removing NGDCs from the SOLR role just as competition is expanding, or creating an entirely different default service model could create significant customer confusion, market uncertainty, and unnecessary costs. Should the Commission determine that fundamental changes to the default service model are needed, it should ensure that any such changes maintain established customer protections. PECO emphasizes that removing the billing and customer care functions from NGDCs is not necessary to enhance retail competition.

Furthermore, changing the existing interrelationships between billing, collections, customer data and POR would be a complex undertaking. PECO believes it is the obligation of those who seek fundamental changes to the default service model to clearly articulate how alternative models will maintain customer protections and deliver real benefits.

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

To determine opportunities for expansion of natural gas facilities into areas un-served by gas, PECO recommends that the industry monitor and participate in the current legislative initiative that is pursuing this goal. Senators Gene Yaw and Dominic Pileggi have proposed two pieces of legislation designed to extend natural gas distribution systems to un-served and under-served areas. Senate Bill 738, *The Natural Gas Consumer Access Act*, would require every NGDC in Pennsylvania to submit three-year plans to the Commission, outlining extension and expansion projects. This bill would also require expedited treatment for projects if an economic development agency or a large number of residential, commercial or industrial entities seek natural gas service collectively. Senate Bill 739 would provide $15 million in grants to schools, hospitals and small businesses to obtain access to natural gas service.

With respect to changes that the Commission could undertake to further enhance the market, PECO notes that the Commission has already implemented a number of changes in recent years through its Search Order; PECO believes that more time is needed to realize and review the full effect of these changes.

With that said, PECO recommends investigating whether the following suggestions could further enhance the competitive market in Pennsylvania. Regarding these suggestions, it is PECO's position that, to the greatest extent possible, the customer experience should not involve different processes depending on the type of service provided. In addition, common treatment of initiatives for dual energy companies should be allowed when implementing initiatives would cost more to do so separately. For the initiatives adopted, NGDCs should receive full and current cost recovery. Finally, PECO recommends conducting a working group to evaluate all suggested enhancements proposed to determine which ones will best serve natural gas competition.

1. Customer Education – PECO recommends implementing an appropriate consumer education campaign targeting electric and gas customers simultaneously. This approach would leverage both gas and electric customers, educating them on the potential opportunities to save money with a competitive supplier. This strategy also would leverage existing electric choice communications that currently educate and encourage customers on the competitive electric marketplace. Tactics should include paid and earned media, direct communication, online and social media, stakeholder and community outreach and employee engagement efforts.

2. Annual PGC Rate – PECO recommends investigating if the implementation of an annual PGC rate instead of the present quarterly rate would enhance shopping. Using an annual PGC by the Company may enable NGS's to provide offerings to certain customers that guarantee a lower PTC for up to twelve months.

3. Exploring NGS/Customer Interest in Standard Offer Program – PECO recommends evaluating the potential success of the electric standard offer program to determine if any successes could translate to gas customers to help promote shopping.

Regarding possible legislative changes to further improve the retail natural gas market in Pennsylvania, PECO supports the concepts included in House Bill 1188 ("HB 1188"). This bill would change 66 Pa.C.S. § 1307(f) such that refunds for over-collected amounts would accrue interest at the prime rate for commercial borrowing. In addition, if an NGDC's gas costs exceed 10% of the revenues they would have collected in the previous 12 month period, due to customer switching, the NGDC may recover that under-collection through a nonbypassable surcharge. Finally, NGDCs may recover all prudent and reasonable costs associated with implementing customer choice initiatives on a full and current basis.

**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?**

   **a. Seamless Move**
   **b. Accelerated Switching Timeframes**
   **c. Standard Offer Program**
   **d. Low-Income Customer Shopping**
   **e. Expanded Consumer Education About Shopping**
   **f. And Additional RMI Initiatives That Would Translate Well to the Retail Natural Gas Market**

For customers who receive electric and gas services, having consistency in the areas of seamless moves and accelerated switching would likely be beneficial. Absent consistency, a customer could be confused or dissatisfied. For example, without consistency in seamless moves, a customer shopping for both electric and gas could keep their electric supplier when they move but would have to return to SOLR service for gas. In the case of the standard offer program, customers that receive both gas and electric services could switch both services at the same time. These benefits are not without cost, so full and current cost recovery should be available for NGDCs to implement these changes.

Some examples that warrant further study and analysis are: Customer Referral Program, Customer Assistance Program ("CAP") Shopping (similar to the rules that are adopted for electric customers), Seamless Moves/Accelerated Switching, Supplier Friendly Bill and any items applicable from State-Wide Consumer Education Program.

Seamless Moves

The Commission's current regulations would need to change before seamless moves could apply to natural gas customers. Under the existing rules, NGSs currently cannot continue serving customers when they move to a new address and NGSs cannot act as an agent for the customer in contacting the NGDC to arrange for continuation of the supplier's service. The Commission opted not to change the rules to allow for seamless moves in its SEARCH Order.[12] PECO believes that in this investigation, the Commission should explore the possibility of changing the existing rules such that seamless moves would be allowed for natural gas customers.

Accelerated Switching

The Commission has an existing order[13] to address accelerated switching timeframes for electric customers. Therefore, this investigation should determine whether learnings from the electric rulemaking may be applied to natural gas customers.

Low Income Shopping

PECO recently filed its electric "CAP Shopping Plan", which contained appropriate protections for its electric low income customers who want to shop for electric generation supply.[14] Those protections would also be appropriate for a gas CAP Shopping Plan. Therefore,

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[12] According to the SEARCH Order, the Commission determined that:

> Also, certain rule changes or new programs or policies that might increase customer participation, such as seamless moves, customer referral programs, and aggregation programs have not been recommended for implementation at this time. Discussion of these subjects may be found in the *SEARCH Report at* pp. 38-39, 39-43 and 55-58.

[13] See Final Order, *Interim Guidelines Regarding Standards for Changing a Customer's Electricity Generation Supplier*, Docket No. M-2011-2070442 (Order entered on October 24, 2012).

[14] See the *Petition of PECO Energy Company for Approval of its Customer Assistance Program Shopping Plan*, at Docket No. P-2012-2283641 (submitted on May 1, 2013).

PECO recommends that if the Commission decides to adopt a gas CAP Shopping Plan, it should include the following protections (which were proposed in PECO's electric plan):

1. The appropriate CAP discount percentage level will apply to a CAP customer's total bill whether or not the customer shops (CAP Shopping Plan at 7-8);

2. A variety of customer education initiatives should focus on the benefits of the competitive market for low income customers, the promotion of shopping, and tools to help CAP customers understand and manage their energy bills (CAP Shopping Plan at 8);

3. NGSs must charge CAP customers a rate that is at or below the PECO PTC for residential customers. However, if NGDCs are ultimately removed from the SOLR function, and an alternative SOLR is chosen, then an alternative PTC should be adopted. This alternative PTC should be based on an appropriate market reference price (Id.);

4. Suppliers must publish their CAP rates on PAGasSwitch.com and in customer mailings to promote rate transparency and help simplify the shopping process for CAP customers (Id.);

5. Participating NGSs must provide the Commission and PECO with periodic confidential reports on the number of CAP customers served and the rates charged in order to facilitate the measurement of benefits from shopping that are flowing to CAP customers (CAP Shopping Plan at 9); and

6. NGSs must use NGDC consolidated billing for all shopping CAP customers to ensure that each customer's CAP benefits are properly applied to customer charges and to track information related to CAP cost effectiveness and affordability (Id.).

Consumer Education

PECO endorses expanded efforts to educate customers as to the benefits of shopping for gas.

State-Wide Consumer Education Program

PECO supports adopting a coordinated state-wide education effort among the Commission, suppliers and utilities to further educate Pennsylvanians on the benefits of shopping for a competitive supplier for their gas supply; to direct consumers to the

Commission's PA Gas Switch website; and to educate consumers about changes to the competitive marketplace expected as a result of this investigation.

In sum, certain outcomes from the Commission's recently completed electric RMI should be evaluated to determine if they can be appropriately applied to the natural gas market.

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

Yes. PECO is always looking for flexible hedging opportunities to incorporate low cost Pennsylvania-sourced Marcellus Shale gas into its procurement portfolio. As explained in more detail below, PECO has already incorporated Marcellus Shale into its portfolio through its annual 1307(f) PGC proceedings.[15] As long as Marcellus Shale opportunities can be reasonably implemented at the least cost for customers, they should be pursued.

In the Company's 2012 PGC proceeding, PECO was given approval to alter its hedging program such that the Company would issue four Request for Proposals ("RFP") for 5,000 dth of supply per day to be primarily sourced in South Western Pennsylvania. Under conditions of the proceeding, and the ensuing, executed contracts with counterparties, PECO will receive 20,000 dth per day from December 1, 2013 through November 30, 2016 at fixed prices. This arrangement allowed PECO to replace its purchases from the Gulf Coast with Pennsylvania production. The fixed price allowed the secondary benefit of reducing price volatility for customers and counterparties.

In 2013, PECO leveraged its existing firm transportation contracts to purchase gas in a variety of transactions at Pennsylvania receipt points that resulted in less costly gas for its

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[15] NGDCs have a statutory obligation to procure gas at the least cost pursuant to 66 Pa.C.S. § 1318(a).

customers than gas supply from its traditional Gulf coast production area. PECO has increased its Marcellus Shale purchases from 0% in 2009 to a projected 40% in 2014 at the least cost for its customers. Thus, opportunities are available to obtain Marcellus Shale supply at a low cost to customers in Pennsylvania.

**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 and penalties, nominations and capacity.**

While a rulemaking would be necessary if any significant changes were made to NGDC business practices or tariffs, consideration must be given to the inherent differences between all NGDC distribution systems (as each depends on different interstate pipeline transportation and storage assets/contracts and system assets to provide these services). Inflexible requirements could increase costs for customers, a result that is avoided with reasonably flexible tariff rules. Therefore, PECO believes that individual NGDC tariffs are the appropriate mechanisms to implement the following business practices.

<u>Tolerance Bands & Cash Outs/Penalties</u>

Tolerance bands should be reasonably limited when NGSs know in advance how much gas they need to deliver to customers. PECO's tariff provides suppliers with a fixed ADDQ amount each month. This serves as advance notice of the total amount of gas suppliers need to procure and deliver each day of the month. Therefore, PECO only uses a 2% tolerance band (to account for delivery imbalances) because of the predictability and control afforded to suppliers by such advance notice. Contrariwise, a 10% tolerance band would make more sense in situations where suppliers do not have this kind of predictability and control, for situations where the NGDC provides daily delivery quantities.

In addition, being that PECO provides NGSs with a fixed ADDQ every month, penalties and cash out amounts are triggered when deliveries are made outside of the 2% tolerance band using a 200% multiplier. Using a 10% band to trigger penalties and cash outs would also make sense for situations where NGSs do not have a fixed monthly ADDQ. Because of the differences in the delivery information provided to suppliers, PECO believes that tolerance band levels, penalties and cash-outs should be specified in each NGDC's tariffs.

Nominations

Requiring NGDCs to support all 4 North American Energy Standards Board ("NAESB") nomination schedules is a business practice that could be standardized among all NGDCs. However, doing so will increase procurement costs for NGDCs, which would ultimately flow to default service customers (because procurement costs must be unbundled from base rates). Accordingly, consideration should be given to this cost increase and weighed against the cost savings to shopping customers. This could be further explored in the natural gas RMI.

Capacity

For proper system balancing, NGSs should be granted access to capacity in direct relation to their specific capacity needs based upon their daily nominations and delivery requirements. These balancing requirements will be different on each distribution system. Therefore, PECO believes that NGDC tariffs are the appropriate mechanisms to account for these differences.

## I. Conclusion

PECO appreciates the opportunity to comment on the Order and asks that the Commission favorably consider its comments. PECO looks forward to working with the Commission and other stakeholders as the Investigation progresses.

Respectfully Submitted,

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December 12, 2013

*For PECO Energy Company*

From (215) 841-5521 Origin ID: REDA
Michelle Ross

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23rd Floor
Philadelphia, PA 19103

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PA Public Utility Commission
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