Energy to do more®

Mark C. Morrow, Esq.

UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406

Post Office Box 858
Valley Forge, PA 19482-0858

(610) 768-3628 Telephone (direct)
(610) 992-3258 Facsimile

February 21, 2017

VIA E-FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
400 North Street
Harrisburg, PA 17120

Re: Rulemaking to Amend the Provisions of 52 Pa. Code, Chapter 59 Regulations Regarding Standards For Changing a Customer's Natural Gas Supplier, Docket No. L-2016-2577413

Dear Secretary Chiavetta:

Enclosed for filing at the above-captioned matter, please find the Comments of the UGI Distribution Companies, comprised for the purposes of this submission of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc.

These comments are being submitted in response to the Commission's Advance Notice of Proposed Rulemaking Order entered on December 22, 2016, which was published in the January 7, 2017 edition of the *Pennsylvania Bulletin*.

Very truly yours,

Mark C. Morrow

Mark C. Morrow

Counsel for the UGI Distribution Companies

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Rulemaking to Amend the Provisions of 52 Pa. Code, Chapter 59 Regulations Regarding Standards For Changing a Customer's Natural Gas Supplier	:	Docket No. L-2016-2577413

**COMMENTS OF THE
UGI DISTRIBUTION COMPANIES**

I. Introduction

The UGI Distribution Companies ("UGI"), comprised for the purposes of this submission of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc., appreciate this opportunity to submit comments in response to the Commission's Advance Notice of Proposed Rulemaking Order entered on December 22, 2016, and published in the January 7, 2017 edition of the *Pennsylvania Bulletin* (the "ANPRO").[1]

II. Background

UGI currently provides natural gas distribution service to approximately 626,000 customers in Pennsylvania, and serves as the supplier-of-last-resort for its smaller volume core market customers, including those who elect to receive natural gas supply service from licensed natural gas supplier ("NGS"), in accordance with the various and detailed statutory obligations established by the General Assembly in, amongst other provisions, 66 Pa.C.S. §§ 1307, 1317, 1318 and 2207.

UGI's distribution systems primarily receive natural gas supplies through interstate facilities subject to regulation as to rates and terms of service by the Federal Energy Regulatory

[1] The UGI Distribution Companies are members of the Energy Association of Pennsylvania ("EAP"), fully support the comments filed by EAP at this docket, and submit their comments to supplement the comments of EAP.

Commission ("FERC"). In other more limited instances, UGI may also receive supplies from gathering systems not subject to FERC regulation, on-system peaking facilities that may or may not be subject to FERC regulation, or on-system local production. To ensure that there is sufficient upstream assets and contract delivery rights to fulfill UGI's SOLR obligations to core market customers, UGI, in accordance with applicable statutory least cost fuel procurement and reliability standards, must often enter into long-term contracts. When a core market customer elects to receive its natural gas supply service from a NGS, certain FERC-jurisdictional pipeline capacity is released to the NGS acquiring the customer on a calendar month basis, and other long-term supply assets are used to provide a functionally equivalent calendar month sale of gas upstream from UGI's distribution system (often referred to as a "bundled city gate sale").[2] When customers return to SOLR service, capacity releases are recalled and bundled city gate sales end at the end of the calendar month.

Since natural gas is often used by core market customers for heating purposes, customer demand is variable, and long-term gas supply assets acquired to meet peak demand will frequently not be fully utilized to meet core market customer requirements. In such instances, both NGDCs and NGSs may use gas supply assets to make bundled city gate sales upstream of the distribution systems they operate on subject to applicable FERC rules or, in the case of pipeline or storage capacity, may make capacity releases subject to FERC posting and bidding rules designed to provide transparency and promote efficiency(this resale and release process may be referred to as "maximizing the value of gas supply assets in secondary markets"). The proceeds from such transactions can offset some or all of the costs of long-term gas supply

[2] Under tariff rules negotiated with NGSs in Commission-approved PGC settlements, such bundled city gate sales may, at the election of a NGS, be varied with-in specified parameters throughout the calendar month to enable the NGS to maximize the value of the bundled city gate sales in secondary markets if the supplies are not needed to meet customer demands.

assets, and the process of maximizing the value of gas supply assets in secondary markets can play an important role in reducing PGC costs in the case of NGDCs, or determining the price and profitability of NGS alternative gas supply service options.

The natural gas commodity that is transported to UGI's distribution systems is often procured on a monthly basis in the week before each calendar month (this is often referred to as "bid week") based on future expected month demand. Bid week is also when capacity release and gas resale decisions are often made since those decisions are similarly influenced by future expected monthly demand. UGI releases capacity and makes associated bundled city gate sales on a calendar month basis to NGSs so they can evaluate their gas supply options, maximize the value of their gas supply assets in secondary markets and price their service options appropriately. Providing this information to NGSs on a calendar month basis also assists UGI in procuring natural gas for its PGC customers and maximizing the value of its PGC gas supply assets in secondary markets in accordance with the calendar month orientation of wholesale supply markets. To the extent there is uncertainty as to future expected monthly demand because of customer movement between NGSs or to or from SOLR service, the degree of precision that can be employed by UGI or NGSs in maximizing the value of gas supply assets in secondary markets may be reduced, thereby potentially leading to increased PGC costs or increased levels of financial risk for NGSs. While intra-month adjustments can be made to gas supply plans, given the predominant industry practice on setting up supplies on a monthly basis, the available intra-month gas supply options may be significantly limited and affect their price.

UGI bills its core market customers on a monthly basis using meter reads that are primarily collected by receiving short range signals from meters that are gathered by vehicles traversing defined geography routes. With certain very limited exceptions, UGI's meter readings only record total gas usage since the last monthly meter read, and cannot provide intra-month consumption information or be read from a central location through telephonic, cellular or other links. To maximize efficiency, meter reading personnel cover different geographic areas throughout the calendar month, and associated bills are calculated and issued in a similar fashion. Those customers whose meters are read on a particular day within a month and who receive bills based on the same meter read date are said to be on the same "work day cycle".

Currently, when a NGS acquires a core market customer, it sends an electronic ("EDI") signal to UGI, which triggers the issuance of a letter to the customer giving the customer five days in which to notify UGI if the transfer is not wanted. Customers enrolled on or before the 15^{th} of each month are processed for transfer on the day after their next scheduled work day cycle meter read date. On the 16^{th} of each month UGI determines the amount of capacity or function equivalent gas sales it will provide to each NGS based on the expected peak day demand of the NGS's customers at the end of the next calendar month. This process minimizes the uncertainties as to the gas supply assets that will be provided by UGI to each NGS, and permits increased levels of precision by UGI and NGSs in maximizing the value of their respective gas supply assets in secondary markets when making calendar month gas supply set-up decisions in accordance with predominant industry practice.

UGI, like other NGDCs, uses a Customer Information System ("CIS") to handle billing and other processes such as the customer switch process described above. It currently is using two legacy systems which, because of their age, lack the ability to easily implement business process changes. UGI is in the process, however, of installing a new CIS that is expected to first become operational in the fall of 2017. This new CIS will provide increased flexibility and should reduce, but not eliminate, the costs of implementing business process changes.

III. <u>Comments</u>

The ANPRO proposes revisions to the Commission's Chapter 59 regulations regarding standards for changing a customer's natural gas supplier "to facilitate accelerated switching without endangering safeguards to protect customers against unauthorized switching." ANPRO, p. 2. Specifically, the provisions of 52 Pa. Code §§59.93-59.94 would permit a customer seeking to change its natural gas supplier to authorize an electronic communication from the acquiring Natural Gas Supplier ("NGS") to the NGDC is as little as one day or at some later date selected by the customer. The NGDC would then have to attempt to verify the veracity of the electronic switch notice by "matching at least two data elements such as name and account number" and send a notice to the customer of the change in supplier within one business day. The customer switch would then have to be effectuated "within 3 business days of the receipt by the NGDC of the electronic enrollment transaction."

UGI fully participated in the Commission's Natural Gas Retail Market Investigation including the Office of Competitive Market Oversight ("OCMO") process referenced on pages 11-14 of the ANPRO. The OCMO process including the submission of informal comments addressing accelerated switching, and the informal comments of UGI and others noted issues associated attempting to apply electric retail market switching rules to retail gas markets. Those concerns are reiterated below.

First, from a gas supply perspective, permitting accelerated switching as proposed in the ANPRO will decrease the precision by which NGDCs, and to a lesser extent NGSs, can gauge future expected calendar month monthly demand and thus maximize the value of gas supply assets in secondary markets for the benefit of core market customers for the reasons explained above. Gauging this cost impact is difficult because it depends on the flexibility of the components of each NGDCs and NGSs supply portfolio and the assessment of the likelihood of significant intra- calendar month customer switches and when such switches may occur. To some extent NGSs concerned about this may be able to control this risk through their customer contracting process by only agreeing to serve customers who would voluntarily agree to extending their switch date, but NGDCs would not be able to control this risk if NGSs elect to serve customers switching on short notice.

From a billing perspective, the ANPRO would require intra-billing month customer switches thereby requiring intra-month billing changes for customers receiving consolidated bills. To perform such intra-month billing changes, the ANPRO, with respect to NGDCs, like UGI, that do not have advanced or automated meter reading capacity, would require:

> *an actual meter read, use of an estimated meter read or use [of] a customer-provided meter read. When an estimated meter read is used, the estimated meter read shall be updated when an actual meter read is obtained.*

52 Pa. Code §59.94 (b). This process would require the development of billing algorithms to estimate intra-month billing usage that could be subject to later adjustment, and could lead to increased customer call center usage and costs if NGSs elect to utilize accelerated switching. Additional costs would have to be incurred by NGDCs in re-training their call center and billing staffs and in modifying customer communications. The amount of these costs are difficult to estimate, but presumably would not be insignificant.

From a systems perspective, UGI's new CIS was developed to accommodate electric accelerated switching, and can be modified to accommodate gas accelerated switching. However, UGI estimates that it would incur in excess of $1.2 million in internal and external information technology labor costs alone to make the necessary modifications to its new CIS system to accommodate gas accelerated switching, and would need approximately twelve months from the later of the date its new CIS becomes operational or the effective date of the Commission's order or regulations requiring gas accelerated switching to implement the new rules. This cost estimate does not include other software or business systems modifications that might result of the implementation of gas accelerate switching, such as changes that might have to be made to GASTAR system used to manage gas supply activities.

From a customer satisfaction perspective, UGI sees the potential for decreases in customer satisfaction resulting from the use of estimated bills subject to future adjustment.[3]

The Commission, of course, must weigh these various costs against the expected public benefits. In making this public policy calculus, UGI would respectfully ask the Commission to consider the following points.

In the case of the electric retail market, accelerated switching was viewed as a potential remedy to customer dissatisfaction with variable rate product offering of Electric Generation Suppliers ("EGS") that produced unexpected results during the polar vortex. In the gas retail market, however, such variable price product offerings are rare for core market customers, and other reforms instituted by the Commission since the polar vortex suggest, in the opinion of UGI, that protection for variable pricing products is not a sufficient public benefit to outweigh the costs of implementation and the ongoing incremental gas supply and other costs associated with gas accelerated switching.

UGI would also note that while it has implemented accelerated switching on its affiliated UGI Utilities, Inc. – Electric Division system at some cost, so far only one customer has taken advantage of it.

---

[3] UGI is not aware of any instances of slamming on its systems, but if this were to occur in the future customers might also reasonably expect a longer period to respond to a notice that their supplier has changed resulting in increased levels of customer dissatisfaction.

For the gas supply reasons noted above, there is also some reason to believe that NGSs might not elect to take advantage of accelerated switching, preferring instead to reduce supply risk and potentially enhance revenues in maximizing the value of gas supply assets in secondary markets. In this regard, UGI understands that representatives of New York NGSs did not support accelerated switching when this potential practice for promoting retail choice was investigated in that state.

Also, while accelerated switching might be viewed as a potential benefit to certain NGSs' marketing plans under certain conditions, such private benefits do not equate to a public benefit, and there is no assurance under the rules as proposed in the ANPRO that accelerated switching will be used by NGSs, or if used, will lead to increased levels of shopping. In this regard, the General Assembly never defined increased market share for NGSs as a public policy goal when it established a statutory framework for implementing retail choice in the Commonwealth. Instead, the General Assembly stated:

> *Consistent with section 2204 (relating to implementation) the commission shall allow retail gas customers to choose* ***among natural gas suppliers and natural gas distribution companies*** *... Retail gas customers shall be able to choose* ***from these suppliers*** *a variety of products, including, but not limited to, different supply and pricing options, and service that evolve as the competitive market place matures.*

66 Pa.C.S. §2203(2) (Emphasis added.). Today the retail marketplace in the Commonwealth has matured and all of the customers on UGI's systems have multiple supply options as envisioned by the General Assembly. Moreover, core market customers served by NGDCs and NGSs are both experiencing the benefits of the robust natural gas wholesale market facilitated by federal regulatory changes.

IV. Conclusion

UGI, for the reasons stated above, has reservations whether the public interest would best be served by the adoption of the accelerated switching rules proposed in the ANPRO. UGI stands ready, however, to work diligently to implement accelerated switching if the Commission concludes otherwise. If that decision is reached, UGI respectfully request that it be given at least twelve months from the later of the date its new CIS becomes operational in the fall of 2017 or the effective date of the Commission's order or regulations requiring gas accelerated switching to implement the new rules.

Respectfully submitted,

Mark C. Morrow

Counsel for the UGI Distribution Companies

Dated: February 21, 2017