BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Natural Gas Retail Markets Investigation Accelerating Supplier Switching Advance Notice of Proposed Rulemaking Order	Docket No. L-2016-2577413

COMMENTS OF PHILADELPHIA GAS WORKS
TO ADVANCE NOTICE OF PROPOSED RULEMAKING ORDER

I. INTRODUCTION

Pursuant to the Commission's Advance Notice of Proposed Rulemaking Order ("Order") issued on December 22, 2016 in the above-captioned proceeding, Philadelphia Gas Works ("PGW") hereby respectfully submits the comments below to address the issues raised by the Commission in its Order. In the Order, the Commission solicits comments from interested stakeholders on proposed amendments to regulations dealing with the process of transferring a customer's account from one natural gas service provider to another. The stated purpose of the proposed regulation changes is to accelerate the switching process while ensuring that customers continue to be protected from "slamming."

There are significant and costly challenges to implementing the regulatory changes outlined in the Commission's Order, and accelerated switching in the gas industry is neither the same nor as necessary as in the electric industry. PGW urges the Commission to consider carefully the ratepayer costs and benefits of the proposed accelerated switching process in light of the realities of PGW's distribution and billing operations and the intricacies of pricing in the wholesale natural gas market. PGW's comments on the proposed regulatory changes are set forth in more detail below.

II. COMMENTS

1. Definitions

In its Order, the Commission is proposing a revision to a number of definitions set forth in Section 59.91 of the Commission's regulations, 52 Pa. Code § 59.91. PGW requests that the Commission offer some clarification to the new definitions in order to accomplish the goal of accelerating switching. More specifically, PGW is concerned that the new proposed definition of "Current NGS" is not completely clear. The proposed definition states that a "Current NGS" is "[t]he NGS at the time of the customer contact." Under the proposed change, it is difficult to ascertain what entity would be considered the "current NGS" if there is a pending switch. It would be helpful for the Commission to specify that the current NGS is the NGS then serving the customer, even if the customer is awaiting a switch to a different supplier.

2. Customer Contacts

In the Order, the Commission proposes changes to 52 Pa. Code § 59.92, including adding language that would require PGW to inform customers who contact the company of the possibility of a cancellation penalty. Order at 19-20. PGW respectfully submits that it is inappropriate for PGW to report the possibility of a cancellation fee to an NGS customer. PGW is not aware of the arrangement between the customer and the NGS and would not be able to provide additional details after informing the customer of the possibility of a cancellation fee. A requirement that injects PGW into the customer-NGS relationship in this manner could lead to customer confusion and unnecessary upset because PGW customer service representatives will not be in a position to offer further information about the fee to the customer – and the customer is unable to make an informed decision.

With regard to customer contacts with the NGS, the Order proposes a change to 52 Pa. Code § 59.93(1) that requires a new NGS selected by a customer to notify PGW of the customer's selection "at the end of the 3-business day rescission period… or a future date specified by the customer." Order at 21. In addition, under the proposed rule, "[t]he selected NGS may notify the NGDC by the end of the next business day following the customer contact upon customer consent." *Id*. The new rule appears to create a discrepancy on the switching date. In PGW's view, the timing of the selection notification should be consistent. If the proposed rule is not made consistent, it appears that PGW will be expected to hold the enrollment for some future date specified by the customer. Under these circumstances it may be challenging for PGW to ascertain the length of time for which the enrollment may be held. Furthermore, if a customer requests a switch date far in the future, the waiting period could result in data integrity issues and customer confusion. If PGW is required to hold an enrollment until a future date, the time horizon for the switch date should be limited to no more than 60 days from the date of the notification.

The proposed rule at 52 Pa. Code § 59.93(2) requires NGDCs to send the customer "a confirmation letter noting the proposed change of NGS *or change to supplier of last resort provider*." Order at 22 (emphasis added). As PGW has stated before in prior comments on this issue, a customer's return to the supplier of last resort (NGDC) should not necessitate a new letter informing the customer of this change. It is PGW's position that the anti-slamming rules contained in the Commission's regulations are intended to prevent "slamming" and there is no slamming when a customer contacts the NGDC directly and returns to the default provider, who has an obligation to serve all customers.

3. Time Frame Requirements

The Commission's proposed change to accelerate switching by requiring that the switch occur by three (3) business days of receipt of the electronic enrollment under § 59.94(a) and (b), creates a significant number of operational challenges for PGW and costs for its customers (a significant number of whom are low-income or with income just above low-income) that must be considered carefully and weighed against the benefits before the Commission finalizes its rules. Order at 26. PGW elaborated on some of these challenges in its Informal Comments to OCMO regarding accelerated switching, which were submitted on September of 2015. Among other things, PGW explained that:

> Under current PGW gas switching Tariff rules, the lead time for on-cycle switching is based on the 15th calendar day of the month. If PGW receives an enrollment after the 15-calendar-day deadline, the switch is not made with the next meter read date but with the subsequent meter read. This process is used in order to allow for the mandatory capacity release requirements related to the assignment of pipeline capacity to NGSs to meet reliability objectives. Under FERC rules, the capacity follows the customer; when a switch occurs, PGW releases the capacity associated with the shopping customer to the NGS serving that customer. This capacity release to the NGS happens in advance of "Bid Week" (5 business days prior to the first business day of the following month). This timing provides NGSs the capacity release information they need to secure the appropriate level of assets to serve their customers. PGW believes that the current 15-calendar-day on-cycle lead time for switches likely provides NGSs with a reasonable amount to time make the appropriate trades for the natural gas assets they need to serve their customers. Any changes to the current lead time for switches could lead to the possibility that NGDCs will not be able to complete the required capacity releases before the NGS have to trade for the assets they need, or the capacity release volumes may not accurately include the number of customers in a supplier pool. For this reason, PGW believes that current protocols

> based on its Tariffed 15th calendar day of the month best serves customers and suppliers.

PGW Informal Comments at 5.

Under PGW's current procedures, PGW buys gas monthly and the proposed change could result in PGW paying for gas supply procured for customers that will not be on its system. In other words, PGW could end up paying for gas even if the company does not need to take physical possession of the gas to serve given customers. PGW submits that additional costs created by the change proposed in the Order may lead to stranded costs that will need to be recovered as part of the periodic 1307(f) review.[1] Even if contracts with wholesale suppliers could be re-negotiated and amended, changes allowing PGW to meet the proposed time requirements may very well require PGW to pay additional fees or penalties. Again, this creates additional costs that will need to be considered.

The proposed accelerated switching rules will create a number of issues related to PGW's management of its natural gas capacity. Under the proposal set forth in the Order, PGW would have to hold an additional amount of capacity in order to fulfill requirements associated with customer choice. Having to hold additional capacity will be costly for PGW ratepayers. Under normal circumstances, PGW would have the option of releasing excess capacity in exchange for capacity release credit. Last year, the amount of capacity release credits totaled approximately $8 million. If the accelerated switching rules were to be implemented as proposed in the Order, PGW would likely need to hold onto more capacity and would not be able to realize capacity release credits for the benefit of ratepayers as it has done in the past. In addition, the need for the

[1] Issues related to cost recovery are addressed in further detail below.

additional capacity would be immediate to ensure that the Maximum Daily Quantities ("MDQ"), required by suppliers are met.[2]

The proposed accelerated switching rules also will have a significant adverse effect on PGW's management of its natural gas supply portfolio. The new regulations will require the Company to purchase more day gas (as opposed to base load gas) because of the unpredictable nature of the gas supply picture under accelerated switching. The cost of day gas is greater than base load gas purchased under long-term agreements. Additionally, if the new rules are approved, PGW will need to purchase more "swing gas," variable price gas bought as a hedge against spikes in the price of supply. Although swing gas allows the purchaser to respond to changes to a supplier's MDQ, these types of contracts have demand changes attached to them which adds to the costs that are passed on to PGW's ratepayers.

In addition, PGW's Interruptible Transportation ("IT") pools will need to be adjusted on a more regular basis, leading to additional challenges. Currently, PGW makes necessary changes to its IT pools on a monthly basis. These changes would be required on shorter time frames to accomplish the accelerated switching contemplated by the Commission's Order.

Another issue raised by the proposed accelerated switching rules relates to the effect of the new rules on current meter reading processes, and the limitations of PGW's current meter technology to accomplish the Commission's accelerated switching goals. It is axiomatic that metering and billing accuracy are fundamental to a properly functioning retail market in natural gas supply. Customers want to see promised savings realized when they review their monthly bill. However, the proposed accelerated switching timeframes may compromise the accuracy of

[2] MDQ is the largest quantity of gas a customer can request or take under a contract on any one day.

billing information to the customer. In the case of PGW, Advanced Metering Infrastructure ("AMI") devices are not currently used in the company's service territory. This makes it practically impossible for PGW to do an actual off-cycle meter reading that would provide the most accurate meter and billing information to a customer switching under the proposed accelerated timeframes. Doing an actual meter read off-cycle on PGW's current meters would require PGW meter-reading personnel to travel to disparate parts of the company's urban service territory to perform special meter reads. Because of, among other issues, the geography of the territory and often-congested traffic conditions in Philadelphia, it would be wholly impractical, inefficient and exceedingly costly to send out meter reading vehicles to take actual readings from customers wishing to switch under an accelerated schedule. Such activities would significantly increase the cost of compliance with the new rules.

Because customer meter reads are inherently unreliable, the only viable option for PGW would have to be estimated meter readings. PGW views this alternative as consistent with the proposed change in 52 Pa. Code § 59.94(b), which provides that "[w]hen and estimated meter read is used, the estimated meter read shall be updated when an actual meter read is obtained." *Id*. A utility should have the authority to determine which method it will require.

To address the issue of estimated usage, PGW expects it would need to use a pro-ration methodology to assign usage to each supplier (old and new) utilizing an actual reading pursuant to the existing meter-reading cycle. Pertinent to whether it is financially appropriate to impose accelerated switching on PGW, this would require substantial changes to PGW's billing system processes which will result in additional costs to ratepayers.

Under this approach PGW expects it would have to continue to bill customers on a cycle basis. However, it is likely a customer would receive two bills, one that contains charges for a "prior supplier" and a second for a "new supplier" where the switch from one to the other occurs during an off-cycle period.[3] Because the usage would necessarily be estimated, as described above, there would be a delay in transmitting to the customer the usage attributable to each supplier. There is an inherent uncertainty with estimated billing and a significant likelihood that one party could be over or under compensated. From PGW's perspective, the risks associated with billings based on estimated meter reads, coupled with the anticipated costs of the Commission's accelerated switching proposal, and the reality of gas prices and gas pricing, do not appear to be outweighed by the "benefit" of accelerated switching.

While PGW would not support accelerated switching for the myriad reasons addressed herein, PGW has additional concerns because it appears that the Commission is not limiting switching to one off-cycle switch per billing cycle. With estimated bills for multiple switches per billing cycle, customers will be confused and frustrated with their bills. Assuming the Commission determines that PGW has to provide accelerated switching regardless of the concerns raised herein, if a one-switch-per-billing-cycle limitation is not imposed, exceedingly complicated estimation and billing protocols would be necessary, and the costs associated with such changes can be expected to rise. The additional switches would also erode the reliability of any bill estimation methodology.

The Commission should recognize that there are some significant impediments to implementing a 3-day accelerated switch that affect all parties. As noted in the Order, "some

[3] PGW is still in the process of analyzing how it would modify its system and thus the resolution presented in these comments may not be the final resolution reached by the company, particularly as the final proposed regulations have not been presented.

NGSs were uncertain about shortening the switching timeframe to three business days as has occurred in the electric industry, pointing to the same need to make capacity assignment nominations that the NGDCs discussed." Order at 14. Based on these concerns, with respect to PGW, the Commission could make a reasonable accommodation on the timing issue in accordance with PGW's prior recommendations. In its September 2015 informal comments, PGW offered the following suggestion.

> Overall, assuming that on-cycle switching is maintained, and assuming that PGW continues to retain capacity, PGW believes it could support a change to the 20th of the month (approximately 2 business days prior to Bid Week), instead of the 15th. Such a change, while allowing for less time to gather the necessary information and to make the required capacity assignments, could provide sufficient time for NGDCs and NGSs to execute the appropriate transactions to ensure adequate capacity for their respective customers.

PGW Informal Comments at 7-8. PGW notes that this change would require system modifications, with resulting costs. PGW urges the Commission to – at the very least – consider alternatives to the proposals set forth in the Order. However, PGW would urge the Commission to reconsider retaining on-cycle switching in order to avoid the problems outlined here.

4. Customer Dispute Procedures

In the Order, the Commission has proposed some minor changes to Section 59.97 of the Commission's regulation to address customer disputes involving an unauthorized switch. Order at 32-33. Although PGW agrees that customers should be protected from slamming, it should be clear in the final version of the rules that slamming regulations are not intended to apply to a situation where a customer is returning to default service. As discussed above, the Commission should not require the NGDC to send a confirmation letter to a customer returning to supplier-of-last-resort service.

5. Timeframe for Implementation

In its Order, the Commission is proposing a requirement that the final accelerated switching rules be fully implemented in a one year period of time. Order at 34-35. At this point in the process, it is difficult for PGW to ascertain whether the one-year implementation timeline is long enough because PGW does not have sufficient information to make that determination. The implementation timeframe may vary depending on the types of rules that the Commission approves in the end. In addition, there are likely significant differences between the different NGDCs that will be affected by the new amended regulations. It may be more appropriate to allow each utility to propose an implementation timeframe as part of a compliance plan to be filed in accordance with the final rulemaking order.

According to the Order, part of the Commission's reason for proposing a one-year implementation timeframe is that it took Electric Distribution Companies ("EDCs") approximately a year to fully implement similar rules dealing with electric accelerated switching. *Id*. at 34. PGW respectfully submits that NGDCs should be permitted more time than the one-year period afforded to electric utilities. The Commission should recognize that there are significant differences between what is required of NGDCs pursuant to the Order. For example, the Order states that "the NGDC would likely have to serve as a clearinghouse" to deal with capacity and nomination issues and to "foster real time communication between all parties." Order at 27. As far as PGW is aware, this is an unprecedented requirement which the EDCs did not have to implement. At this point, it is unclear what this clearinghouse concept entails and how much it would cost PGW's ratepayers. In addition, based on the metering and billing changes PGW anticipates if the proposed changes are approved, significant and costly changes to these systems may be required, which would further delay full implementation of accelerated switching. It follows that based on the lack of detailed information on these and other aspects of the proposed rules, it could be very difficult for PGW to commit to a one-year implementation schedule. For these reasons, PGW urges the Commission to defer the question of the implementation timeframe until such time as the NGDCs are required to submit a compliance plan.

6. Cost Recovery

The Order acknowledges that there will be costs incurred in adopting the proposed accelerated switching changes, but the Commission expects that NGDCs will implement the new rules "in the most cost-effective manner possible." Order at 35. The Commission seeks comment on the costs associated with implementation and the preferable cost recovery mechanism. *Id.*

At this time it is difficult for PGW to estimate the total costs to implement the proposed accelerated switching regulations, in part, because so much of the actual process is still uncertain. Costs, such as costs associated with billing system changes, the clearinghouse, EDI, bill formatting, gas management, IT switching vendor costs, etc. are difficult to estimate absent a concrete and final rulemaking order.

With regard to the preferred cost recovery mechanism, it is important to note that the Public Utility Code provides for the recovery of all prudent and reasonable costs incurred to implement choice. More specifically, the Code states that:

> Natural gas distribution companies shall have the right to recover on a full and current basis all prudent and reasonable costs incurred to implement customer choice from retail natural gas customers or other entities as determined by the commission. Recovery from retail natural gas customers shall be made pursuant to a reconcilable automatic adjustment clause under section 1307 (relating to sliding scale of rates; adjustments).

66 Pa. C. S. A. § 2205(c) (7).

PGW respectfully submits that the appropriate cost recovery mechanism consistent with the Code is a reconcilable customer surcharge which allows for full and timely cost recovery.

III. CONCLUSION

PGW appreciates the opportunity to submit these comments and urges the Commission to take into consideration the company's suggestions and proposals. PGW looks forward to continued constructive participation in this rulemaking process in order to achieve the Commission's stated goal to implement accelerated NGS switching in the Commonwealth.

Respectfully submitted,

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