PENNSYLVANIA ENERGY MARKETERS COALITION

Rosemary Chiavetta
Secretary, Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

October 31, 2017

Dear Secretary Chiavetta:

Please find enclosed the comments of the Pennsylvania Energy Marketers Coalition, in response to the Pennsylvania Public Utility Commission's Advanced Notice of Proposed Rulemaking at Docket No. L-2017-2619223, published in the *Pennsylvania Bulletin* on September 18, 2017.

Please do not hesitate to contact me with any questions or concerns regarding our comments.

Sincerely,

Frank Caliva
Regulatory Consultant
Pennsylvania Energy Marketers Coalition
(PEMC)

President
P.R. Quinlan Associates Inc.
1012 14th Street NW, Suite 903
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Enclosure

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Proposed Rulemaking: Natural Gas	)	
Distribution Company Business Practices;	)	PAPUC Docket No. L-2017-2619223
52 Pa. Code § 62.225.	)	

COMMENTS OF THE PENNSYLVANIA ENERGY MARKETERS COALITION

The Pennsylvania Energy Marketers Coalition ("PEMC") is pleased to respond to and support the Pennsylvania Public Utility Commission's ("PUC" or "Commission") Advance Notice of Proposed Rulemaking ("ANOPR") regarding proposed amendments to regulations at 52 Pa. Code § 62.225, related to the recovery by natural gas distribution companies ("NGDCs" or "utilities") of the costs associated with natural gas capacity. As communicated by the PUC in its press release of August 31, 2017, this ANOPR "… seeks to bring greater transparency, consistency and equity to the market while maintaining system integrity and improving reliability."[1] The PUC further indicated this will be accomplished through "… uniform capacity costs allocations, provide more tools and market pricing to handle the daily balancing within the market, and give market participants real-time information to enhance systems operations."[2]

This ANOPR comes out of, at least in part, the collaborative discussions following the Commission's issuance on December 18, 2014, of a final order in the investigation of Pennsylvania's Retail Natural Gas Supply Market at Docket No. I-2013-2381742 ("Gas RMI Final Order"). Even more broadly, as the PUC notes, this ANOPR rests on the recognition of the historically-known lack of uniformity among Pennsylvania NGDCs' business standards, operating rules, and practices, an

[1] PUC, "PUC Seeks Comments on Proposed Changes to Spur More Competition, Improve Customer Participation in Pennsylvania's Natural Gas Market," August 31, 2017. Accessed at http://www.puc.state.pa.us/about_puc/press_releases.aspx?ShowPR=3902
[2] Ibid.

issue that was identified as early as the "Final SEARCH Order" entered by the PUC on September 11, 2008 at Docket No. I-00040103F0002.

The PEMC believes ongoing improvements to the structural relationships between utilities and retail natural gas suppliers ("NGSs" or "suppliers") is vital to ensuring a vibrant, competitive marketplace that will continue to provide significant value to retail consumers. Our comments below on the specific proposals of the ANOPR are made in this light.

DISCUSSION

I. *Uniform Capacity Costs for All Customers*

In the ANOPR, the PUC proposes that all NGDCs in Pennsylvania adopt the approach used by Peoples Natural Gas Company ("Peoples"), in which all customers pay the average system cost of capacity, regardless of whether the customer is served by an NGS or the utility for supply.

PEMC supports this proposal, particularly the proposed regulatory language that "Capacity or Pennsylvania supply costs shall be charged to all customers as a non-bypassable charge based on the average contract rate for those services."[3] We believe this is an equitable approach, which will ensure system reliability to the benefit of all customers without placing the cost burden on a single group of customers. This proposal would also minimize the risk of exposure for payment of capacity both from a NGDC and NGS perspective and provided for a level playing field in terms of risk of liability for non-payment of capacity. This allows the NGSs to focus on delivering value-added services with less risk. This change could reduce the financial barriers to entry into the market by reducing the upfront capital required to begin serving customers – providing for more competition and more options for consumers.

[3] ANOPR, p.10.

II. *Capacity Assignment from All Assets*

The PEMC supports the proposal for capacity assignment from all assets, which follows from the existing rules which require that the release of a NGDC's pipeline and storage capacity assets must follow the customers for which the NGDC has procured the capacity, subject only to the NGDC's system reliability needs and Federal Energy Regulatory Commission regulations. This is with the understanding that physical access to certain facilities assets may raise reliability and operational issues for NGDCs and their customers. In this case, the NGDC must develop a mechanism that provides "proxy or virtual access" to the facilities assets in question to provide NGSs with the ability to utilize and benefit from these certain assets but still allows the NGDC to maintain overall control for reliability assurance. It is also our understanding that in the event of actual usage of certain restricted assets, communication between the NGS and the NGDC is paramount and the use of a particular physical asset may be denied based on pre-established rules.

III. Imbalance Trading

PEMC supports the proposal for the trading of daily imbalances with the understanding that there may be system upgrades required to afford access to more real-time information. The proposal provides the ability for NGSs and the NGDCs to manage their portfolios in a more cost-efficient manner by minimizing imbalance penalties, which should ultimately result in a more competitive marketplace for the consumer. Under certain circumstances, this ability to trade daily will allow for a more efficient distribution system. In the shoulder or off-peak months, daily trading may not be necessary and having a month–end trading mechanism ability would also be helpful. Finally, using existing NGDC

Electronic Bulletin Boards or online portals as "trading hubs" may help to expedite the implementation. Further discussion on the penalty structure is in the next section.

IV. Penalty Structure During Non-peak Times

The PEMC supports the proposed penalty structure during non-peak times with the understanding that all NGDCs would establish penalties for system off-peak periods based upon its local gas costs. For this, the NGDC would propose, to the Commission, a local hub or utilize a system average cost as its base market price for natural gas. From there, a straight multiplier could be used to generate the penalty during system off peak periods; the PEMC sees a value of 15% as a reasonable multiplier to start. At the same time, we believe is it is imperative to maintain the discretion of the NGDC to waive penalties, as appropriate, especially if the NGS does not flow the correct amount of gas due to inaccurate information from the NGDC or if an imbalance benefits the NGDC system daily balancing position.

CONCLUSION

The PEMC share's the Commission's conviction that the proposed rulemaking could bring greater transparency, consistency and equity to the market while maintaining system integrity and improving reliability by addressing: (1) uniform capacity costs for all customers; (2) capacity assignment from all assets; (3) imbalance trading; and (4) penalty structure during non-peak times. Most importantly, these proposals will ultimately enhance the marketplace in such a way to invite greater participation by consumers to their ultimate benefit.

We appreciate the opportunity to comment on this matter, and commit our coalition to further participation in the ongoing discussion about how to ensure the retail energy market in Pennsylvania best serves all the citizens of the Commonwealth.

Respectfully submitted,

PENNSYLVANIA ENERGY MARKETERS COALITION

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Pennsylvania Energy Marketers Coalition

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