PEOPLES

375 North Shore Drive
Pittsburgh, Pennsylvania 15212

www.peoples-gas.com

William H. Roberts II
Senior Counsel

Phone: 412-208-6527; Fax: 412-208-6577
Email: william.h.roberts@peoples-gas.com

November 2, 2017

By eFiling

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

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

Dear Secretary Chiavetta:

Please accept the enclosed Joint Comments of Peoples Natural Gas Company LLC and Peoples Gas Company LLC in the above-referenced proceeding. I have also served a copy of these comments via email to Nathan Paul, npaul@pa.gov, in the Bureau of Audits and Kriss Brown, kribrown@pa.gov, in the Commission's Law Bureau.

Please direct any questions regarding this filing to me.

Very truly yours,

William H. Roberts II

cc: Nathan Paul, Bureau of Audits (via email)
Kriss Brown, Law Bureau (via email)
(w/ enclosures)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

JOINT COMMENTS OF PEOPLES NATURAL GAS COMPANY LLC AND PEOPLES GAS COMPANY LLC

I. INTRODUCTION

Peoples Natural Gas Company LLC ("Peoples") and Peoples Gas Company LLC ("Peoples Gas") (the "Peoples Companies") submit these Joint Comments pursuant to the Pennsylvania Public Utility Commission's ("Commission") Order in this docket on August 31, 2017 ("Order"). The Order is an advance notice of proposed rulemaking and invited parties to submit comments on four potential changes to Commission regulations at 52 Pa. Code § 62.225. These regulations address the release, assignment and transfer of capacity among Natural Gas Distribution Companies (NGDCs) and Natural Gas Suppliers (NGSs).

The Order states that the proposed regulatory changes are the result of the Commission's Natural Gas Retail Markets Investigation (RMI) and are intended to improve the competitive market by revising how capacity is assigned and addressing related issues including penalties and imbalance trading. Further, the Commission stated that they are the result of careful consideration of the stakeholder discussions and comments and are intended to further the Commission goal of improving the competitive natural gas market to the ultimate benefit of consumers.

These Joint Comments focus on the four potential changes to Commission regulations at 52 Pa. Code § 62.225. The Peoples Companies are also members of the Energy Association of Pennsylvania ("EAP") and support the EAP Comments filed in this matter.

II. COMMENTS

I. Uniform Capacity Costs for All Customers:

The Commission is proposing that the Peoples method of capacity release to NGSs supplying P-1 customers be adopted by all NGDCs. As the Commission noted in the Order, a distinguishing component of the Peoples Choice program is that Customer Choice end users still pay for the capacity via a capacity charge rather than requiring the customers' NGS to pay for the capacity.

To accomplish this, the Commission proposes the following changes to § 62.225, Release, Assignment or Transfer of Capacity.

> (a) An NGDC holding contracts for firm storage or transportation capacity, including gas supply contracts with Commonwealth producers, or a city natural gas distribution operation, may release, assign or transfer the capacity or Commonwealth supply, in whole or in part, associated with those contracts to licensed NGSs or large commercial or industrial customers on its system.
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> > (3) A release, assignment or transfer **[must be based upon the applicable contract rate for]** <u>of</u> capacity or Pennsylvania supply **[and]** <u>shall</u> be subject to applicable contractual arrangements and tariffs. <u>**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.**</u>

The Commission asserted that this structure could offer a benefit to all market participants. Therefore, the Commission proposes that the Peoples' approach to capacity payment should be replicated across the Commonwealth.

Peoples believes that this method has helped the development of the Customer Choice market in its service territory and can recommend this method. Peoples is concerned, however, that a regulation-prescribed method for assigning and recovering the cost of released capacity may be too restrictive and could limit potential responses to changes in the interstate capacity market. Peoples suggests that the Commission consider means other than a regulation for moving the natural gas Customer Choice marketplace toward consistent practices. The goal would be to still encourage the adoption of consistent practices without locking the industry into a single methodology that could not be modified until a future rulemaking permits a change.

II. Capacity Assignment From All Assets

In the Order the Commission endorses the general principle governing capacity release that the asset needed to serve the customer should migrate with the customer. The Commission characterizes this principle as "slice of the pie". The Commission also recognized that no NGDC provides a full slice of the pie, that is, that every NGDC retains some capacity for various reasons, including impracticability of slicing up certain peaking assets, maintaining system reliability and FERC prohibition on the release of certain types of capacity. Additional reasons include a lack of scale, meaning that a slice of a very small part of the Company's capacity is impractical and inefficient for both Peoples and NGSs, sectionalization of some parts of the distribution system such that not all sections are served by all sources of capacity, and FERC-approved terms and conditions of service that change the nature of the service upon release, a specific example being the loss of no-notice capability when no-notice service is released.

The Order requests comments on how NGSs can obtain "virtual access" to the restricted asset, stating that this may be the best option to provide NGSs with the ability to utilize and benefit from the asset but still provide overall control to the NGDC for reliability assurance.

The proposed additions to the regulation at 52 Pa Code § 62.225(a)(2) are:

§ 62.225. Release, assignment or transfer of capacity.

> (a) An NGDC holding contracts for firm storage or transportation capacity, including gas supply contracts with Commonwealth producers, or a city natural gas distribution operation, may release, assign or transfer the capacity or Commonwealth supply, in whole or in part, associated with those contracts to licensed NGSs or large commercial or industrial customers on its system.
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> > (2) A release of an 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 valid system reliability and Federal Energy Regulatory Commission constraints. **<u>When release must be restricted due to reliability or other constraints, an NGDC shall develop a mechanism that provides proxy or virtual access to the assets.</u>**

Peoples believes providing virtual access to retained capacity can be done, again subject to conditions that may be specific to the capacity or to the NGDC's operations. In short, the implementation of the concept may have to be company specific and/or be flexible in the definition of proxy or virtual access to the assets. By specific example, Peoples' virtual access includes the assignment of operationally "like" capacity that would provide NGSs the ability to bring in similarly priced supplies as would be available from the retained capacity.

Peoples is not fully informed of terms and conditions of releases of capacity by other NGDCs as part of their Customer Choice programs and, therefore, cannot opine if one program is better than another. Peoples, therefore, would support a technical conference where alternatives could be vetted.

III. Imbalance Trading

The Order encourages NGDCs to provide NGSs the opportunity to trade imbalances in order to mitigate the potential losses due to inadvertent imbalances. The justification for imbalance trading appears to be tied to the limited communication and the lack of real time information provided by NGDCs to NGSs, which may result in occasions where a mistake in nomination may not be identified until later in the process, when a penalty would be assessed on the NGS. The Commission indicated that the same limited communication may also eliminate the opportunity for an NGS to correct the incorrect nomination by utilizing the upstream imbalance trading market. The Commission acknowledged that this kind of incident may not occur frequently, but said that it not only highlights a potential market obstacle but also highlights, more significantly, system reliability concerns. The Commission stated that if penalties are necessary to ensure system reliability, so should real-time or near real-time communication on the accuracy of nominations be necessary to ensure system reliability. Therefore, imbalance trading at the NGDC level (*i.e.*, non-FERC jurisdictional) and between Choice and Transportation programs could provide the market with a tool to help ensure reliability while simultaneously providing an opportunity to allow NGSs to avoid a penalty if a satisfactory solution can be implemented.

Peoples submits that its program of providing Choice Suppliers delivery target quantities two days prior to the gas delivery day and balancing deliveries against those targets rather than against the NGS's customers' actual usage eliminates the need for imbalance trading and also eliminates the need for real time communication. In fact, under Peoples' program, the allowance of imbalance trading would introduce a reliability risk that does not currently exist. Today, NGSs are able to trade gas supplies prior to the gas delivery day in order to satisfy their delivery target amounts. If, instead of acting proactively to manage deliveries, an NGS assumes that it can trade for gas at the end of or after the gas delivery day, and there turns out to be no other NGS in an opposite position with whom to trade imbalances, then the NGDC is left to manage that imbalance.

Indeed, system reliability is bolstered by program terms and conditions that encourage the NGSs to act proactively to meet their obligation as opposed to acting reactively, or after-the-fact, to cure failures to meet those obligations, regardless of how those failures occurred.

The Order attempts to support imbalance trading by noting the absence of real time communication on most NGDC systems. The Commission stated that if penalties are necessary to ensure system reliability, so should real-time or near real-time communication on the accuracy of nominations be necessary to ensure system reliability, and if an NGDC system does not have real time communication, imbalance trading would support system reliability. Peoples submits that this is a chain of logic that is missing one or more links. How would daily imbalance trading improve reliability on the Peoples system?

IV. Penalty Structure during Non-Peak Times

The Order proposed that a standardized, off-peak period, penalty mechanism across Pennsylvania that is both fair and adequate is needed to reduce barriers to participation in the retail natural gas market. Further, the Order suggested that a market-based, standardized penalty structure for off-peak periods could provide greater transparency and predictability; allow all market participants to quantify risk across any or all operations within the Commonwealth subject only to that system's market based cost of gas; and may also persuade NGSs to enter new markets, offer additional products or generate increased competition as the penalty structure is consistent regardless of which NGDC the NGS is operating in.

The Commission, therefore, proposed that all NGDCs establish penalties during system off-peak periods based upon its local gas costs. For this, the NGDC could propose 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.

To implement this proposed standard penalty provision, the Commission proposes the following additions to the regulation at 52 PA Code 62.225:

> **(6) Penalties during system off-peak periods must correspond to market conditions.**
>
> **(i) An NGDC shall use the system average cost of gas as the reference point for market based penalties. If an NGDC takes service from a local hub, it may use the local hub as a reference point for market based penalties.**
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> **(ii) The lowest penalty must be set at the market price.**

Peoples' current practice is consistent with this proposal. In its 2015 gas cost recovery case, Peoples eliminated the use of static cash-out penalties in favor of a simple +/- 15% of current daily market gas rates. Peoples uses the midpoint of the Dominion South Point index as a proxy for current daily market gas rates in the cash out formula.

Peoples' cash out procedure has been successful. Peoples believes that the procedure is generally supported by all stakeholders. It provides a market-based cash out value but carries a high enough market premium/discount to encourage NGS attention to delivery obligations and protect retail customers from serving as a free balancing service for Choice suppliers. The program was favorably received when proposed to NGSs at Peoples 2014 Customer Choice Collaborative and has continued without complaint.

WHEREFORE, the Peoples Companies respectfully request that the Commission accept these Joint Comments and give them due consideration in this proceeding.

Respectfully submitted,

PEOPLES NATURAL GAS COMPANY LLC

PEOPLES GAS COMPANY LLC

By: William H. Roberts II ______________________

William H Roberts II (ID # 54724)
Senior Counsel
Peoples Natural Gas Company LLC
Peoples Gas Company LLC
375 North Shore Drive
Pittsburgh, PA 15212

Dated: November 2, 2017