In the Matter of:

Proposed Rulemaking: Natural Gas Distribution Company Business Practices; 52 Pa. Code § 62.225

Docket L-2017-2619223

November 2, 2017

Mirabito Natural Gas, LLC (MNG) respectfully submits the following comments regarding the Advance Notice of Proposed Rulemaking Oder adopted July 12, 2017.

MNG supports equity in gas cost components between non-shopping and shopping customers. We have routinely applied the following basic principles in rulemaking discussions regarding capacity release that we believe support competitive markets:

- Assets released on behalf of a customer should be useful in serving that customer.

- Where NGDC territories involve distinct geographic delivery regions where differing sets of assets are required for reliable service, such distinct delivery regions should have distinct pooling capability (or city gates), distinct release packages, and distinct NGDC supply charge calculations.

- Uniformly applied asset charges (e.g., monthly balancing charges or pooling charges) should be employed where delivery assets contracted by a NGDC are not readily releasable or where, if released, would create economic disadvantage for either party.

1. **Comments on proposed "Uniform Capacity Costs For All Customers":**

Point 1 – "Effect of Load Factor"

An individual meter's "load factor" (the efficiency in which assigned capacity is used) is a primary component of any true market gas price. High load factor customers using capacity very efficiently receive lower capacity costs while low load factor customers (e.g.; residential customers or strictly heat only customers) pay a greater percentage of price in capacity charges. This efficiency of capacity use represents the primary advantage for shopping customers. Any rulemaking or system that disrupts this relationship and socializes such costs creates market price distortions (i.e., there is no benefit for efficient use) and removes one of the primary tools upon which NGS can differentiate and compete (i.e., free use and market costing of assets is an operating competence of any successful NGS). Further, socialization of such valuable assets for the purpose of reducing barriers to entry relationships would be a net loss in competitiveness. With regard to risk of payment, NGSs must be held to credit, reliability, and default standards as would any other unregulated entity - which should not be viewed as a barrier to entry but as a means to maintain credible market participants.

Point 2 - Use of "Weighted Average Cost of Capacity (WACOC)"

Before applying a WACOC release in any NGDC, the economic impact of such an action should be evaluated and understood. Such impacts will likely vary in each NGDC. Burdening customers with assets that are not useful in supplying their geographic location clearly distorts market economics. Where any WACOC socialization economically benefits some customers and negatively impacts others – then a clear market distortion has occurred. ***The resulting distortion in market signals should not be discounted***. Such distortion encourages expansion and contraction of gas service that is contrary to actual market costs and in the long run is not economically sustainable or equitable.

Because this approach has been attempted in New York retail markets, a few examples from their market are worth noting. A "slice-of-the-system" approach was successfully applied in Keyspan where the customer load is located in a single geographic region where all assets are “useful” in supplying the load (albeit not equal in cost). However, this is not the case in the New York State Electric and Gas (NYSEG) territory where distinct gates have distinct asset needs.

For example, the concept of “slice-of-system” has been **unsuccessfully** applied in NYSEG where a weighted average cost of capacity (WACOC) and “slice-of-system” price were adopted despite opposition by non-utility stakeholders. The resulting single socialized LDC supply charge has significantly distorted competitive and market signals throughout the NYSEG territory.

Chart 1 below compares the cost of capacity released to competitive suppliers (before and after the NYSEG “WACOC” tariff) against the single system wide cost used in the utility Cost Of Gas (COG) calculation.

CHART 1
NYSEG Regional Capacity Costs - $/DT

	NYSEG DTI (Ithaca)	**NYSEG TCO** (Binghamton)	**NYSEG TGP** (Lockport)
Market Cost of Released Capacity Current (with WACOC) (1)	$0.95	$1.44	$1.76
Market Cost of Released Capacity Pre APR'15 (without WACOC) (1)	$0.59	$1.46	$2.59
NYSEG Firm Average Demand COG	$1.32	$1.32	$1.32

(1) Cost for average load factor customer profile with capacity release volumes as described in NYSEG GTOP for April 2016 - March 2017

(2) From NYSEG Statement of Gas Supply Charge, average of Adjusted Firm Average Demand (COG) charges published for April 2016 through March 2017

Chart 1 demonstrates how the WACOC approach (where a single system demand component is used across the NYSEG system) creates disadvantageous comparisons for ESCOs in certain areas such as Binghamton and Lockport and advantageous comparisons in other regions such as Ithaca. This data represents the market distortion in just 3 of 7 NYSEG pooling areas – all of which are affected.

As discussed above, distinct (“useful”) asset groups should be released to distinct and appropriate geographic supply regions. Such releases obviously result in differing underlying costs to serve distinct regions. In such cases, if LDC supply charges are not similarly distinct, then further market distortions occur.

Chart 2 below shows a similar comparison using actual variable commodity costs.

CHART 2
NYSEG Regional Commodity Cost - $/DT

	NYSEG DTI (Ithaca)	NYSEG TCO (Binghamton)	NYSEG TGP (Lockport)
12 Month Average Commodity Cost (1)	$1.81	$2.68	$1.99
NYSEG Cost of Gas (2)	$2.09	$2.09	$2.09

(1) Average of Gas Daily Price Guide, Monthly Bidweek Spot Gas Price Index for April 2016 through for March 2017 for applicable commodity region. Variable and fuel charges to NYSEG City Gate added.

(2) From NYSEG Statement of Gas Supply Charge, average of Firm Average Commodity (COG) charges published for April 2016 through - March 2017

Chart 2 shows that market based regional difference in commodity prices further exacerbates the distortion of pricing components between ESCOs and the utility supply charge. Not only does this distort the comparison (or competitiveness) of ESCO pricing against the utility – it also creates a scenario that encourages expansion and contraction of gas service in regions that is contrary to actual market signals and is therefore not sustainable.

When the NYSEG WACOC approach was approved, there appeared to be a general belief among regulators that use of a WACOC across the system would create a level playing field for market participants. The opposite has occurred. NY ESCO's and NYSEG are now subject to distinct price advantages and disadvantage depending on geographic location.