

Testimony of Matthew Sommer, Vice President of Natural Gas and Electricity, Shipley Energy
Pennsylvania House Consumer Affairs Committee
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Good Morning Chairman Godshall, Chairman Preston, and committee members. My name is Matt Sommer, and I am the Vice President of Natural Gas and Electricity for Shipley Energy Company. I appreciate the opportunity to speak with you today to discuss the retail natural gas markets in Pennsylvania.

Shipley Energy is a leading energy service provider in the Central Pennsylvania region. Shipley and its affiliates provide heating oil, propane, natural gas, electricity, HVAC service and installation, and bottled water to over 50,000 residential, commercial, and industrial customers in Pennsylvania. Shipley employs approximately 750 Pennsylvanians and is a leader in the communities we serve, having won the Central Pennsylvania Business Journal's Corporate Citizen of the Year award in 2009.

Shipley Energy's success over its eighty-two year history is largely thanks to the entrepreneurial spirit of the organization and when Pennsylvania enacted the Natural Gas Choice and Competition Act in 1999, Shipley identified an opportunity to bring its vision of providing convenient energy solutions and legendary service to a new market, beginning by serving customers behind the Columbia Gas of PA system in York, Adams, and Franklin counties. This was followed in 2002 by expansion to become the first residential supplier on UGI's system, bringing residential choice to customers in the Harrisburg, Lancaster, Lebanon, Reading, Hazelton, and Lehigh Valley regions. Most recently, Shipley has expanded to serve customers on the PECO gas system serving suburban Philadelphia, and we have plans to ultimately expand our footprint to cover the entire state.

At present, we serve over 16,000 residential customers. For the calendar year 2010, we estimate a total savings for our customers well in excess of \$1,000,000. Despite the successes of Shipley

and other suppliers in bringing an alternative and genuine cost savings to the market, few Pennsylvanians have opted to switch to an alternate supplier. Based on the most recent statistics published by the Office of Consumer Advocate, only 7.6% of residential customers are currently being served by an alternative supplier. On no utility system do more than a third of customers shop, and on six systems serving nearly 50% of all residential customers, less than one half of one percent shop, if any do at all.

In 2005 the Public Utility Commission determined that effective competition did not exist in Pennsylvania's retail natural gas market and convened a Natural Gas Stakeholders Group to examine ways to increase competition in the market. In September of 2008, the PUC published the finding of this process and laid out its action plan for bringing greater competition to the natural gas market. While the time allotted to my testimony is insufficient to address all issues affecting gas competition in Pennsylvania, I would like to highlight a few that Shipley believes are most responsible for constraining competition.

The price for the default supply service offered through the utility is known as the Price to Compare. It is adjusted on a quarterly basis and intended to facilitate shopping by giving consumers a point of comparison to various supplier offers. Unfortunately, this price often serves as a poor indicator for a number of key reasons. The price is adjusted quarterly so it is slow to react to changes in the wholesale price of gas which forms the basis for supplier offers. In an upward trending market this can make it all but impossible for suppliers to compete, and in a downward trending market it may actually make the offers appear better than they truly are. Additionally, the existence of a true up mechanism known as the gas cost adjustment can further distort the price comparison. In recent years for some utilities, this charge has been as high as 10-15% of the price to compare. How this mechanism works and how it should be factored into their purchasing decision is not something that is easily understood

by residential consumers. Some LDCs list the charge as a line item on the invoice, but others bundle it with distribution charges and only list it separately once a customer elects a new supplier, giving the illusion of it being a substantial additional charge that the customers have incurred through shopping. For the benefit of Pennsylvania consumers and the viability of the gas market, the price to compare needs to be reformed to be more reflective of the wholesale market, more transparent, and more understandable.

Another concern regarding pricing in addition to the methodology for establishing the price is which items are included and which are excluded from the calculation. Whenever a cost attributed to gas supply acquisition is improperly allowed to remain in the base distribution rates, our customers essentially end up bearing that cost twice. We need to make sure that the price to compare is a full and fair representation of the entire cost of acquiring gas supply. Additionally, for years LDCs have optimized the supply assets that they use to serve customers through arbitrage trading and other methods. To incentivize looking for the opportunities, they are allowed to keep a portion of the profits, and the remainder is returned to ratepayers through a credit to the purchased gas cost. Unfortunately this method of sharing those gains leaves out shopping customers, creating a situation where our customers help finance an asset that ends up subsidizing non-shopping customers.

While getting these pricing issues fixed will do much to improve competition, there are quite a few other barriers to entry that if removed, would encourage greater supplier participation in our markets. As I mentioned at the beginning of my remarks, Shipley Energy's ultimate vision is to serve the entire state of Pennsylvania, but at present we only supply customers on three utility systems. Two of the major factors holding back our desired expansion are security requirements and a lack of uniformity between LDC supply tariffs.

To protect themselves from any adverse effects of a supplier default, utilities require suppliers to post security to guarantee the performance of their obligations. The amount of security required varies by LDC and can be a substantial barrier to both entry and growth. The cost of providing such security has risen in recent years, and to spur competition these requirements need to be reviewed to ensure that the levels are fair. Alternatives to posting bonds and letters of credit need to be made available, and consideration should be given to both how long the supplier has operated on the system, and how many customer the supplier serves.

Greater uniformity and flexibility in LDC supplier tariffs would reduce cost, limit risk, and increase competition. At present each LDC has completely different rules related to gas supply. Because there can be substantial penalties associated with failing to comply with these rules, suppliers are leery of expanding to new territories for fear of the unknown. While each system is different and complete uniformity may not be a realistic goal, more can be done to streamline processes and terminology across LDCs to make it more efficient to operate across all LDCs. Additionally, the penalty structure should be reformed to a market based system where they are made sufficiently high to ensure supplier compliance, but not so high as to thwart competition or introduce excessive risk to the supplier.

I thank for your the time to discuss some of the issues affecting Shipley Energy and the natural gas market in Pennsylvania and would happy to answer any questions you may have.