



Pennsylvania House of Representatives

Consumer Affairs Committee

Informational Committee Meeting on the State of Retail Competition

In the Natural Gas Industry

Comments of Matthew Sommer, VP of Natural Gas and Electricity

On behalf of Shiple Energy

717.771.1877

[msommer@shipleenergy.com](mailto:msommer@shipleenergy.com)

August 3, 2011

Chairmen Godshall, Preston, and members of the committee, I greatly appreciate the opportunity to provide these comments to the committee today concerning the state of retail competition in Pennsylvania's natural gas market.

Shiple Energy is a fourth generation family owned business that began in 1929 in York. It now offers ten distinct products and services and employs over 700 Pennsylvanians. In addition to natural gas, we are active marketers of heating oil, propane, and HVAC services to residential customers, as well as wholesale fuel, mobile fueling, and electricity brokering services to business clients. We have built our business through the decades on the values of integrity, caring relationships, responsibility, and pride. Upon the passage of the Natural Gas Choice and Competition Act, Shiple was excited to be able to expand its business to include a retail natural gas offering. We now serve nearly 20,000 residential, commercial, and industrial clients on three utility systems within the Commonwealth.

While the Gas Choice and Competition Act sought to create a competitive retail gas market across Pennsylvania, twelve years after the bill's passage we still lack a vibrant market. The Office of Consumer Advocate compiles a quarterly Natural Gas Shopping Statistics Report which provides a quarterly snapshot of the number of residential customers receiving gas for alternative suppliers. Its most recent report from July 1<sup>st</sup> of this year shows that only a little over 8 % of Pennsylvania consumers are with an alternative supplier. Only two utilities have greater than 20% market participation, and four have no shopping whatsoever, including Pennsylvania's largest LDC, Philadelphia Gas Works, which serves 469,000 customers.

These figures stand in stark contrast to what we've witnessed in the electricity market since the expiration of rate caps. Only six months following the expiration of the final rate caps, nearly 1,000,000 residential customers are receiving alternative electricity supply, whereas only about 200,000 gas customers are shopping. Electricity has received substantial attention from the media and regulators, and we are encouraged by the increased attention given recently to the gas market.

The Public Utility Commission has taken meaningful steps to improve the gas market in Pennsylvania, which we very much appreciate, however much remains to be done. The creation of The Office of Competitive Market Oversight underscores their efforts. We applaud the efforts to bring Purchase of Receivables Programs to more of the market. Under these programs, suppliers who participate in consolidated billing with the utility may have their receivables purchased by the utility at a reasonable discount. This allows the collection and accounts receivable process to be managed by one company, to the benefit of both companies as well as consumers.

I'd like to take this opportunity to discuss a few issues that we feel are the most significant impediments to achieving robust competition in the gas markets. Most of the challenges involve the price to compare. By its very name, the price to compare presents itself as a fair benchmark from which to evaluate competitive offers in the marketplace. Unfortunately, because of the methodology used to calculate the price to compare, it often fails to be a useful tool for consumers to compare market offers.

At present, the prices to compare are adjusted on a quarterly basis. In a trending market, regardless of direction, this creates too large of a disconnect between this retail benchmark and actual wholesale market gas costs. In an upward trending market, forward looking supplier offers end up looking quite unattractive when compared with a price that has been set a couple months prior. It works the other way as well, where in a downward trending market competitive offers may appear better than they actually are. Both natural gas suppliers and Pennsylvania consumers would be better served by a system that provided a price to compare that was a more accurate approximation of the fair market price for natural gas. Transitioning to a pricing mechanism that is updated on a monthly basis would provide a much more accurate benchmark for residential customers.

Monthly pricing would also have the added benefit of providing more timely and accurate price signals to consumers. As it stands now the large variances that can occur between wholesale prices and the price to compare are reconciled through what is known as the E-Factor. This E-Factor charge can be substantial, frequently amounting to a 5 or 10% charge on top of the price to compare. Customers transitioning to alternative supply continue to pay this charge for a period of one year through what is known as the gas cost adjustment. This means that supplier pricing must be 5 to 10% below the price to compare just for a consumer to break even. This is a major problem for marketers as it pushes a substantial portion of the savings opportunity into the second year of receiving alternative supply. A structure that minimized the need for substantial E-Factors would have the effect of making savings much more immediate and would certainly bolster competition in the gas market.

Another issue with a quarterly, reconciled pricing structure serving as the price to compare is that the infrequency with which prices change gives consumers the illusion that these prices are somewhat fixed. The E-Factor is not specifically identified on a number of LDC's invoices; instead it is at times bundled with the distribution charge. This is a source of considerable confusion on the part of consumers. This is another advantage of a monthly adjusted price; it would be a clearer distinction between offers and the price to compare, and there would be a greater understanding of the value of fixed prices.

Shibley Energy views these issues surrounding price to be the biggest impediments to the expansion of gas competition in Pennsylvania, but others do remain. In many cases, security requirements can be excessive, and far exceed the true exposure that would be created by a supplier default. Asset allocation is another important issue. It is vital that the supply assets which have been paid for by rate payers are assigned to suppliers in a nondiscriminatory fashion, and that suppliers pay only their fair share of the cost of these assets and receive the entire economic value in return. Without fair asset allocation schemes, you can be left with a situation where shopping customers are paying their entire share of a supply asset, but not receiving the entire benefit. Shopping customers cannot end up subsidizing non shopping customers.

These are a few of the items that we feel need to be addressed to improve the competitive market for natural gas in Pennsylvania. The Price to compare should be made to be a more fair comparison to facilitate the shopping process. Security requirements should be limited to a reasonable level, and asset assignment schemes must be designed in a fair and reasonable manner.

I thank the Committee for its time today. As a supplier, it's an exciting time to be involved in these markets. Between the success we are seeing in the electricity market and the fact that Pennsylvania will be becoming and increasingly important producer of natural gas, we feel the time is right for us to revisit the natural gas market and ensure that the rules are written in such a way that they ensure that we are able to seize all of the opportunities that a competitive market provides.