



Before the

Consumer Affairs Committee

Pennsylvania House of Representatives

Informational Consumer Affairs Committee Meeting on the
State of Retail Competition in the Natural Gas Industry

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Comments of

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IGS Energy thanks the Committee for the opportunity to provide comments on retail natural gas competition in Pennsylvania.

IGS Energy is a privately held company, serving the natural gas or electric energy needs of almost 1 million customers in 11 states and 22 utility service territories; either directly or through our affiliated company, Accent Energy. IGS Energy began in business in 1989 founded by Scott and Marv White and has grown to approximately 300 employees. Scott White continues today as IGS' President and Chief Executive Officer.

Our state-of-the-art corporate headquarters in Dublin, Ohio, reflects our commitment to wise and responsible energy consumption. It achieved LEED Platinum certification in June of this year - the first commercial building in Ohio of its scale to get such a rating.

IGS is driven by a set of core beliefs that shape our behavior and guide our efforts:

- We believe in an energy-independent United States, powered by domestically-produced, environmentally-responsible resources.
- We believe in the value of developing alternative sources and uses of energy.
- We believe in free markets, where competition, transparency and accountability drive innovation and efficiency.
- We believe in the individual consumer who will play a vital role in shaping the future of energy

We support the comments previously made by Teresa Ringenbach from Direct Energy. Like Direct Energy, we are committed to a more vibrant competitive market environment in the residential sector, where the number of competent, well run and financially responsible suppliers continues to increase, thereby resulting in increased opportunities for customers to choose from an array of products and services, that otherwise would not be available in a market where Choice doesn't exist.

It is certainly a fact that programs recently introduced in the electricity market in Pennsylvania by the Public Utility Commission, and selected utilities have substantially helped to support and grow energy choice. The specific work done by the Public Utility Commission through the Office of Competitive Market Opportunities and Pennsylvania Power & Light offer just a few examples of how programs such as Purchase of Receivables and Utility Consolidated Billing can have a major impact on developing the marketplace. The number of customers choosing an alternative electric supplier has increased dramatically this past year as a result of the programs introduced. The same can be expected in those natural gas markets where similar programs have recently been introduced. These programs however are not the only means by which a competitive market environment can develop and thrive.

As you heard during testimony previously, there is plenty of discussion in Pennsylvania surrounding the provision of default service in the electricity markets, and the eventual exit of the merchant function by the utilities. This is not only a viable option available to the electricity market; it is also an option which should be made available to the natural gas market.

Simply stated, there is no need for a traditional Distribution Company to be in the business of providing natural gas commodity, as there is nothing inherently unique regarding natural gas that would lend itself to a regulated or monopoly service. Consumers consume, and in that role make consumption decisions about dozens of different products and services each day. Natural Gas commodity is no different. In fact, given the importance energy plays in the economy and in the security of the country, it is vital that all consumers take part in making decisions regarding their energy needs. This is simply not possible when a utility is in the role of providing default service, because it deprives consumers of a robust marketplace in which they choose the energy products that best meet their needs, rather than accepting whatever the utility chooses to provide.

When all individuals actively participate in a competitive market, not only will the individual consumer be more educated and informed regarding energy choice, but through active participation by all individuals, the market itself will continue to adapt and evolve to provide even more opportunities and services to consumers so that each market participant can demonstrate their individual company worth to the consumer. Consumers should participate in the market because it is in their own self-interest to shop: through participation the consumer will align his or her interests with those providing competitive services, and have control over those products and services that best fit their needs.

Market suppliers are motivated by serving consumers and developing long-term relationships. So once a relationship has been developed, they will respond to the consumers' demands to ensure these long-term relationships continue to the mutual benefit of suppliers and consumers. Utilities, conversely, are motivated by the hindsight review of their actions through Commission proceedings and thus have a financial incentive to recoup as much of their commodity related expenditures as possible. The interests and needs of the consumer frankly does not factor into this process, since it is more reasonable and prudent for a utility to make their decisions based upon what has been deemed to be reasonable and prudent in the past, not what might be in the best interest of the consumer in the present or future.

We have been a leading advocate for change in the energy industry, committed to efforts that will improve the way the industry and consumers view and use energy resources. As a result of our efforts, and the collective efforts of many suppliers in Ohio, three of the largest utilities in Ohio have replaced antiquated gas cost recovery mechanisms for customers that are not being supplied by competitive suppliers with a NYMEX-based, competitively bid product. Two of the utilities have also announced their desire to completely exit the merchant function, Dominion East Ohio Gas and Vectren Energy Delivery of Ohio. In these territories, as well as Columbia Gas of Ohio, the default service is a retail auction, all customers are eligible to select a choice supplier, and migration rates are presently at 89%, 41% and 45% respectively.

We have learned a number of lessons from this process -- many things that have been done well and that were contemplated at the beginning, such as ensuring continuity of supply for customers in the unlikely event of a supplier default. We have also learned a number of things that we would do differently if provided an opportunity, such as making clear at the outset a full plan for merchant function exit as well as setting a timetable for achieving such a result. That being said, Ohio provides a great example of what can be achieved simply by embracing competition as ultimately the best solution for consumers at all consumption levels.

Another good example is what took place in the State of Georgia. The Georgia Legislature passed the Natural Gas Competition and Regulation Act in 1997, allowing gas distributors in the state to relinquish their gas merchant function under specified conditions. Atlanta Gas Light, the state's largest gas distributor, elected to change its status to a "pipes" only business. In November 1998, Atlanta Gas Light initiated a program to give all firm customers, including residential and small commercial, the right to choose their gas supplier. A unique feature of the program is that the Act specified the conditions for a competitive market; when those conditions existed, all remaining customers of AGL who did not choose a supplier to that point in time were given one hundred days to select one. If these customers failed to do so, they were randomly assigned to a supplier by the Georgia Public Service Commission. The last chance notice was issued in April 1999. Roughly 280,000 customers who had not chosen a supplier by August 11, 1999, were randomly assigned to suppliers in proportion to the share of customers each supplier had captured as of that date. In October 1999, AGL fully exited the merchant function.

The Pennsylvania natural gas market should also proceed in the direction of what is in the best interest of the consumer. The utility does not need to provide day-to-day commodity services. In fact, there is a robust competitive market available, with dozens of suppliers that would and could provide the commodity to consumers. This would allow the utilities to focus on their roles as system administrator, delivery company, provider of last resort assuming in the event of default this role is not also competitively established, and other related roles.

More specifically, competitive suppliers in Pennsylvania could very easily step into the role of day-to-day commodity providers, and each utility could design a program in conjunction with interested stakeholders that would keep the utility whole on all elements of being in the role of local distribution system that would fit the needs of their particular system and meet the expectations of their shareholders. Issues of upstream capacity and storage contracting, assets following customers, provider of last resort in default situations and other issues would need to be worked out, but all such issues are items that were addressed and resolved without issue or incident in Ohio's move away from regulated commodity service. The same could be achieved in Pennsylvania.

Simply put: The consumer's best interests and self-interests are fully aligned with the alternative supplier's best interests and self-interests, a position that the utility cannot put themselves into. Hence, the need to fully investigate and implement the exit of the merchant function.

We believe that this strategy is in the best interest of the consumers of the Commonwealth of Pennsylvania, and pledge our willingness to work cooperatively with all parties to help make that a reality.

We greatly appreciate the opportunity to provide these comments to the Committee.