

**COMMONWEALTH OF PENNSYLVANIA**

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**Comments before the  
House Consumer Affairs Committee  
on Pennsylvania's Retail Gas Market**

Thank you for the opportunity to present comments regarding the retail gas market. In summary, the Office of Small Business Advocate ("OSBA") recommends that the Public Utility Commission collect and post shopping data to facilitate an evaluation of the impact of initiatives to increase shopping.

**1. Measuring Success**

The success or failure of retail competition should be measured by whether customers have a reasonable opportunity to shop and not by how many customers take advantage of that opportunity.

As shown by data provided by natural gas distribution companies ("NGDCs") in their distribution rate cases and in their annual Gas Cost Rate ("GCR") proceedings, there already is a significant amount of shopping by non-residential customers. However, data is not publicly available to analyze exactly which small commercial and industrial ("Small C&I") customers are shopping, how many competitive offers they received, and how much money they are actually saving.

Small C&I customers range from small shops and offices to large box stores, warehouses, and light manufacturers. As a result, generalizations are difficult. However, shopping is more prevalent among Small C&I customers that use large quantities of gas in the manufacturing process, *i.e.*, “process gas,” than among Small C&I customers that use gas primarily for heating purposes, *i.e.*, “heating gas.”

## **2. Incentive To Shop**

A competitive offer by a natural gas supplier (“NGS”) and the GCR charged by the NGDC for supplier of last resort service, *i.e.*, service to non-shopping customers, are substantially a function of both the cost of the gas commodity and the cost of pipeline and storage capacity.

Small C&I customers who use process gas have significantly higher load factors than Small C&I customers who use heating gas. In other words, process gas customers use the same amount of gas on a relatively constant basis throughout the year. In contrast, the consumption by heating gas customers is much more variable and much harder to predict because that consumption is weather-sensitive. As a result, both the NGDC and the NGS can generally obtain capacity to serve process gas customers at a lower cost per Mcf of gas than they can to serve heating gas customers.

With limited exceptions, all non-shopping customers pay the same GCR per Mcf of gas, regardless of their load factor and regardless of whether they are Residential customers or Small C&I customers. Therefore, all non-shopping Small C&I customers pay a share of the NGDC’s cost of acquiring pipeline and storage capacity. However, because storage capacity and pipeline peaking capacity are likely to be unnecessary to serve process gas customers, an NGS can usually offer a lower rate for process gas Small

C&I customers than is charged to such customers by the NGDC through the GCR. That price differential provides a strong incentive for the process gas Small C&I customers to shop.

### **3. Shopping by Heating Gas Customers**

In recent years, the Commission has taken numerous initiatives intended to increase the possibility that an NGS can provide attractive competitive offers to heating gas customers. Those initiatives generally fall into two categories, *i.e.*, lowering the NGS's costs and assuring that the NGDC is not collecting costs from shopping and non-shopping customers through distribution rates that should be charged only to non-shopping customers (because the NGDC avoids those costs if a customer shops).

Unfortunately, because of the lack of publicly available data, it is impossible for the OSBA to determine whether the Commission's initiatives that have already been implemented are having a significant impact on shopping. For the same reason, it will be impossible for the OSBA to determine whether those initiatives that are planned but not yet implemented will have a significant impact on shopping.

Accordingly, the OSBA recommends that the Commission gather and report shopping statistics for gas as it is doing for electric shopping. The OSBA also recommends that the Commission create and maintain a gas shopping web site that is comparable to the Commission's electric shopping web site.

I would be happy to answer any questions you may have.