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August 25, 2009

Via Hand Delivery

James J. McNulty, Secretary
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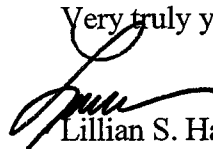
RE: Natural Gas Distribution Companies and the Promotion of Competitive
Retail Markets, Docket No. L-2008-2069114; **COMMENTS OF THE
PEOPLES NATURAL GAS COMPANY d/b/a DOMINION PEOPLES**

Dear Secretary McNulty:

Enclosed for filing with the Commission please find an original and fifteen (15)
copies of the Comments of The Peoples Natural Gas Company, d/b/a Dominion Peoples in
the above-captioned matter.

Please direct any questions that you may have regarding this filing to me.

Very truly yours,



Lillian S. Harris
Counsel for The Peoples Natural Gas
Company, d/b/a Dominion Peoples

LSH/cll
Enclosures

cc: William E. McKeown
Joseph Gregorini
Susan G. George

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Natural Gas Distribution Companies :
And the Promotion of Competitive : Docket No. L-2008-2069114
Retail Markets :

**COMMENTS OF THE PEOPLES NATURAL GAS
COMPANY
d/b/a DOMINION PEOPLES**

The Peoples Natural Gas Company, d/b/a Dominion Peoples, submits these Comments in response to the Pennsylvania Public Utility Commission's ("Commission") March 27, 2009 Proposed Rulemaking Order ("Order") initiating a rulemaking proceeding to develop regulations governing the relationships between Natural Gas Distribution Companies ("NGDC") and Natural Gas Suppliers ("NGSs"), who seek to sell natural gas to end users on the NGDC systems.

This rulemaking addresses five issues: (1) reformulation of the Price to Compare ("PTC"); (2) Purchase of Receivables ("POR"); (3) mandatory capacity assignment; (4) NGDC recovery of costs of implementation and promotion of actions contemplated by this rulemaking; and (5) regulatory assessments. Dominion Peoples addresses the issues of PTC, POR and Cost Recovery in these Comments, which serve to supplement the Comments of the EAPA filed contemporaneously in this docket.¹

¹ Dominion Peoples has signed onto the EAPA comments, that address a number of additional issues, including, but not limited to, needed changes to the "purpose" and "definitional" sections of the proposed regulations (Sections 62.221 and 62.222).

I. INTRODUCTION

As detailed in the Order, the Commission and the stakeholders working group have explored ways to help promote the development of competition in the retail markets for natural gas supply in the Commonwealth. The working group was formed after the Commission concluded in its *Report to the General Assembly on Pennsylvania's Retail Natural Gas Supply Market* ("Report"),² that effective competition did not exist in Pennsylvania's retail natural gas market. Dominion Peoples was an active participant in the Commission's SEARCH process, but the work performed there is not new to the Company. This is because full retail choice has been available on Dominion Peoples' system since 1997.

Dominion Peoples has been a leader with regard to promoting retail choice on its system. With approximately 98,000 or 30% of its residential customers "shopping" for their natural gas supply and 106,000 transportation customers across all classes, Dominion Peoples views retail choice on its system as a success. It is with this background in mind that Dominion Peoples offers comments regarding the proposed regulations.

II. COMMENTS

A. Price to Compare ("PTC")

During the SEARCH process, the NGSs claimed that there is no current valid apples-to-apples comparison of NGDC and NGS purchased gas costs ("PGC") and that

² The *Report* was released in October 2005 at Docket No. I-00040103 and it is accessible at <http://www.puc.state.pa.us/PcDocs/570097.pdf>.

the alleged disparity and resultant PTC differences act as a barrier to market entry for NGSs. Potential remedies for this perceived problem were discussed and several problems were earmarked for further review.

1. The Impact of PGC Costs Removed From Base Rates Likely Will Not be Significant with Uncollectibles Out of the Equation

While the stakeholders do not always agree on how to best convey the PTC to customers, they all seem to agree that a substantial portion of PGC-related costs that are currently recovered through base rates consist of PGC-related uncollectibles expense. The balance of PGC-related costs in NGDC base rates may not be significant and likely would not seem to impact the PTC in any measurable way.

Compounding this problem is the fact that Section 1408 of the Public Utility Code prohibits the establishment of a surcharge mechanism to recover uncollectibles expenses.

It provides:

The commission shall not grant or order for any public utility a cash receipts reconciliation clause or another automatic surcharge mechanism for uncollectible expenses. Any orders by the commission entered after the effective date of this chapter for a cash receipts reconciliation clause or another automatic surcharge mechanism for uncollectible expenses shall be null and void.³

Despite this reality, the proposed regulation at §62.223 calls for the NGDC to expend considerable efforts to remove certain natural gas procurement costs from its base rates⁴ and recover those costs via a separate surcharge.⁵ In Dominion Peoples' view, the effort may not be worth the gain – that is, if the goal is true comparisons of NGS and

³ 66 Pa. C. S. Section 1408.

⁴ See proposed §62.222.

⁵ The surcharge on PGC rates is referred to as a gas procurement charge (“GPC”). The offsetting credit to base rates is referred to as a gas procurement reduction rate (“GPRR”) and the net gas procurement adjustment (“NGPA”) results from the offset of the two. The new regulatory scheme calls for the establishment of the NGPA at the time of an NGDC’s annual Section 1307(f) purchased gas cost (“PGC”) filing and that NGPA would “remain in effect until establishment of new base rates and a PGC rider following a base rate case under 66 Pa.C.S. §1308(d).” See proposed §62.223(g).

NGDC PTCs, the currently-crafted regulatory scheme will not likely result in a markedly different NGDC PTC because it will leave out uncollectibles expenses. Beyond uncollectibles expenses, PGC costs in NGDC base rates are likely small enough that they would not affect the PTC in any measurable way. Thus, extraction and recovery of those costs through a separate surcharge does not appear justified.

In addition, for an NGDC like Dominion Peoples, which has not had a base rate proceeding for some time, it is difficult to apply the proposed regulations with clarity. Review of the proposed regulations begs the question of whether relevant gas supply-related costs would be current costs or the level of costs established in the last base rate proceeding. In Dominion Peoples' view, it must be the latter, but it is very difficult to determine the specific levels of costs that were approved in the last base rate case or how those costs were allocated among customer classes given the black box nature of the approved settlement. In its most recent 1307(f) case, where Dominion Peoples provided fully-allocated cost data from its last base rate case in response to the Commission's SEARCH directive regarding Purchase of Receivables ("POR") programs, the parties complained that those costs were not reflective of current costs. The same perceived cost data problem would likely occur with regard to cost data used to achieve PTC comparability.⁶

2. Monthly Adjustment of PGC Cannot Be Mandated and Is Ill-Advised

To make the PTC reflect actual market fluctuations which may be due to changes in weather, the seasons and other factors, the Commission proposes to have NGDCs adjust the PGC on a monthly basis. This issue was fully vetted during the SEARCH

⁶ The parties agreed in settlement of the case to acceptable future action on the part of Dominion Peoples regarding this issue.

process, where NGDCs demonstrated convincingly that monthly PGC price adjustments would not result in PGC rates that are reflective of current wholesale market conditions. This is because not all PGC supplies are purchased at prices reflective of current wholesale prices. Many NGDCs, including Dominion Peoples, employ hedging strategies that involve purchasing gas supplies primarily during non-winter months, placing those supplies in storage and extracting them during the winter period to avoid higher-priced winter supplies. Hedging has been encouraged by the Commission as a part of a prudent least-cost gas purchasing strategy. In addition to hedging, NGDCs utilize significant storage and storage pricing does not reflect current monthly market pricing.

An additional difficulty was identified during the SEARCH process – namely, that the Commission cannot establish monthly PGC adjustments by simply waiving its current regulation at 52 Pa. Code §53.64(i)(5). Section 1307(f)(1) of the Public Utility Code provides in pertinent part:

No natural gas distribution company shall voluntarily file more than one [PGC] tariff in a 12-month period: Provided, That:

* * * *

(ii) A natural gas distribution company may also file a tariff to establish a mechanism by which such natural gas distribution company may further adjust its rates for natural gas sales on a regular, but no more frequently than monthly, basis to reflect actual or projected changes in natural gas costs ...subject to annual reconciliation under paragraph (5). In the event that the natural gas distribution company adjusts rates more frequently than quarterly, it shall also offer retail customers a fixed-rate option which recovers natural gas costs over a 12-month period, subject to annual reconciliation under paragraph (5). The commission shall ... promulgate rules and regulations governing such adjustments and fixed-rate option, but the commission shall not prohibit such adjustments and fixed rate option. (Emphasis added.)

This clear statutory language affords the NGDCs the right to determine if they will adjust their PGC rates more frequently than annually. The statute gives the

Commission the power to establish regulations that are consistent therewith, but not beyond the statutory edict. In other words, the Commission cannot reach beyond the clear language of the statute to mandate monthly PGC adjustments; rather, it can only enforce the requirement that an NGDC that elects a more frequent than quarterly PGC adjustment must offer its customers a 12-month fixed price option. The proposed regulation that would mandate monthly PGC filings is inconsistent with the current statutory framework.

The quarterly adjustment of gas costs by NGDCs has worked well for many years. It is the middle ground between monthly and annual PGC adjustments. It provides customers with some consistency with regard to natural gas price expectations. The legislature obviously saw value in affording the customer the opportunity to choose an annual fixed price option in the event of monthly PGC changes being employed by the NGDC because the customer may not want to have the gas price shift so often. Predictability has its value for some folks -- it may be significantly more confusing or unpalatable to some customers to have the PGC change monthly.

B. Purchase of Receivables Programs and Applicable Discount Rates

Dominion Peoples believes the proposed regulations appropriately recognize that PORs cannot be mandated, but may be implemented by an NGDC on a voluntary basis. However, the proposed regulation at 62.224(a)(4)(ii) mandates that the discount rate be the same on all purchased receivables. This is not advisable given the differences in risk factors that could attach to different kinds of receivables. NGDCs should have the

flexibility to negotiate differing discount rates given differing circumstances and the regulation should be revised to so reflect.

C. Cost Recovery – Implementation and Promotion of Retail Competition

The proposed regulation at §62.226(a) would permit an NGDC to establish a surcharge to recover “reasonable and prudently incurred costs of implementing and promoting natural gas competition within the Commonwealth.” While Dominion Peoples appreciates the opportunity to seek recovery of such costs, the process contemplated by the proposed regulation is cumbersome and confusing. It indicates that the aforementioned filing would have to be “part of [the NGDC’s] next annual filing pursuant to 66 Pa.C.S. §1307(f)” and before establishing the surcharge, an NGDC would have to “remove the amounts attributable to promoting retail competition from its base rates . . . through a 66 Pa.C.S. §1308 (relating to voluntary change in rates) rate case filed not less than 5 years after first seeking recovery through a 66 Pa.C.S. §1307 nonbypassable mechanism.” §62.226(d). Pursuant to proposed §62.226(e), pending the filing of the base rate proceeding, the NGDC also would have to establish in a Section 1307(f) proceeding, using a fully allocated cost of service study, an offsetting credit to base rates to reflect existing cost recovery of competition-related activities through base rates.

These proposed procedures are complicated. Dominion Peoples already operates a highly-successful retail choice program on its system and it may not incur significant new costs for promoting competition in the immediate future. Dominion Peoples recognizes, however, that it and other NGDCs may incur some new costs and to the

extent that occurs, the Commission could simply permit the recovery of costs through a surcharge or rider without adjusting existing base rates or requiring the production of an expensive fully-allocated cost of service study.

III. CONCLUSION

Dominion Peoples does not believe that there is any magic bullet that will achieve the Commission's goal of fostering retail customer choice. The hard work of establishing new regulations that make sense for all stakeholders and most importantly customers, is not done. Much of what has been proposed will aid the process of reaching full retail choice for customers, but Dominion Peoples submits that the Commission should carefully adjust the regulations as noted herein to remove unnecessary requirements that add little but administrative complexity to the process of helping customers make educated gas supply choices.

Respectfully submitted,



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