Retail competition in natural gas: The Kentucky Public Service Commission’s 2010 study

Special Subcommittee on Energy

July 15, 2011

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Second study by the PSC:

- 1998 administrative case
- This study: prepared pursuant to Joint Resolution 141 – 2010 Kentucky General Assembly
- Report submitted to LRC on Dec. 28, 2010
Statutory context:

- Kentucky statutes neither require nor prohibit retail competition (customer choice) in natural gas service.
- PSC reviews applications for customer choice programs on a case-by-case basis.
- Customer choice programs must meet “fair, just and reasonable” requirement in KRS 278.030.
- Only one utility – Columbia Gas of Kentucky – has sought to establish a customer choice program – PSC approved it and approved extensions.
The 2010 review:

- All five major local gas distribution companies (LDCs)
- 12 intervenors
  - Attorney General
  - Seven marketers
  - Three consumer groups
  - One large-volume customer
- Full discovery; two-day hearing
Principal findings:

- Benefits of retail competition for residential customers cannot be established with certainty
- May be benefits to expanding gas transportation service to more non-residential customers
- Regardless of whether retail competition becomes mandatory or remains voluntary, PSC should be granted authority to provide small-volume customers of gas marketers the same consumer protections afforded to customers of LDCs
Benefits of retail competition for residential customers cannot be established with certainty

- Under current rate structure, the commodity cost of gas is passed through on a dollar-for-dollar basis (via a purchased gas adjustment, or PGA), based on what the LDC paid
- Most LDCs believe the PGA minimizes both cost and risk to consumers
- Over the 11-year life of the Columbia Customer Choice program, customers who bought through a marketer have collectively paid $22 million more than they would have had they bought from Columbia
Benefits of retail competition for residential customers cannot be established with certainty

- Retail competition offers an opportunity for some customers to benefit based on their unique circumstances
- Marketers believe that the ability to choose a supplier is an inherent benefit of retail competition
Expanded gas transportation service to non-residential customers

- PSC requires LDCs to provide gas transportation service to larger-volume customers through approved tariffs
- LDCs set minimum volume requirements for transportation-only service
- Customers purchase gas independently, usually through a marketer
- Report finds potential benefits in expanded access to transportation-only service
- PSC intends to examine usage thresholds when each of the 5 major LDCs files its next general rate case
PSC authority to regulate marketers

- Marketers in customer choice programs are now overseen by the utility whose distribution system they use – no direct PSC oversight
- Protection afforded by direct PSC oversight should be extended to customers of gas marketers
- This should occur whether or not small-volume retail choice is mandated or remains voluntary
- Marketers should be subject to same customer protections that currently apply to LDCs
PSC authority to regulate marketers

Marketer oversight should include:

- Proof of financial, managerial and technical ability
- Filed tariffs with rates, terms and conditions
- Enforceable code of conduct
- Adjudication of customer complaints
- Penalties for violations of PSC statutes, regulations or orders
- Revocation, suspension or modification of license for failure to comply
Summary

No recommendation to alter current regulatory scheme which allows small-volume retail competition on a voluntary basis

Stronger protections for small-volume retail choice customers under any current or future framework

General Assembly creates the statutory framework; PSC is the implementing agency
QUESTIONS