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NEWS RELEASE

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PSC Says Retail Competition in Natural Gas Has Uncertain Benefits for Residential Customers

Should occur only with expanded customer safeguards

FRANKFORT, Ky. (Dec. 28, 2010) – Kentucky's natural gas markets should be opened to broader retail competition only in conjunction with expanded safeguards both for residential customers and natural gas distribution companies, the Kentucky Public Service Commission (PSC) said in a report issued today.

Even with appropriate safeguards in place, there is no certainty that residential customers would benefit from being able to choose a natural gas supplier other than their current local distribution company, the PSC said. Data collected for the report indicate that it is uncertain whether there are benefits to the residential customers and that the extent of any benefits is largely tied to fluctuations in the wholesale cost of natural gas. The data showed that there may be some benefit to expanding gas transportation service to lower volume, non-residential customers.

Regardless of whether expansion of retail competition to the residential market remains voluntary or is mandated, the PSC should be granted additional authority so that customers of gas marketers are afforded the same protections as customers of local natural gas distribution companies, also known as LDCs, the report said.

The report was prepared for and at the direction of the Kentucky General Assembly, which earlier this year directed the PSC to study whether retail competition in natural gas markets would benefit Kentucky's small-volume natural gas consumers.

"Having collected a great deal of evidence and conducted a lengthy hearing, the PSC feels that it has thoroughly explored this question," PSC Chairman David Armstrong said. "We are confident that the General Assembly will find it helpful as it considers this issue."

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Retail natural gas service in Kentucky is provided by gas distribution utilities that own and operate local distribution systems. These utilities, the LDCs, purchase natural gas on the wholesale market and resell and distribute it to their customers.

The LDCs charge delivery and other fees that are regulated by the PSC. The wholesale cost of natural gas is unregulated, but must be passed on to consumers on a dollar-for-dollar basis, with no profits for the LDCs.

Under retail competition, customers purchase natural gas from a third-party marketer, which is allowed to earn a profit on the gas. The LDC delivers the gas and the customers continue to pay the associated costs to their LDC.

Kentucky law neither requires nor forbids retail competition for small-volume customers. Federal law requires that large-volume customers have open access to alternative gas suppliers.

Thus far, only one LDC – Columbia Gas of Kentucky – has implemented a voluntary retail competition program for residential and small commercial customers. The program, known as Customer Choice, began in 2000 and has been approved on an ongoing basis by the PSC.

Data provided to the PSC by Columbia Gas shows that customers in the Customer Choice program collectively saved $11.4 million during the first five years of the program. But in the last five years, during a period of extreme price volatility in natural gas markets, customers in the program collectively paid $28.7 million more than they would have had they purchased gas from Columbia instead of a marketer.

Opinions about the benefits of retail competition were sharply divided among local natural gas companies, groups that advocate for consumers, and natural gas marketers.

Local natural gas companies opposed mandatory retail competition. LDCs supported the establishment of voluntary programs at their discretion, with review and approval by the PSC.

Consumer advocates also opposed mandatory retail competition. They said that competition provides no assurance of lower prices for consumers and noted that programs in other states have experienced customer confusion and deceptive marketing by some suppliers.

Marketers, who favored mandatory retail competition, stated that the opportunity to save money – even if unrealized – is a benefit of retail choice. Other benefits include the ability to choose a supplier and lock in a fixed price for gas.

In analyzing the evidence, the PSC distinguished between full retail competition for all customers, including residential, and expansion of existing gas transportation services, which would allow more non-residential customers open access to gas suppliers.

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Evidence suggests that non-residential consumers using relatively large volumes of natural gas could benefit from expanded transportation services and access to other sources of supply, the PSC said. Individual LDCs in Kentucky determine how much natural gas a customer must use in order to qualify for transportation service.

The PSC said that the LDCs' usage thresholds should be examined further, even in the absence of any move to broader retail competition. The PSC stated its intent to do so in each LDC's next general rate case.

If Kentucky moves toward expanded retail competition, the PSC recommended placing marketers under many of the same requirements that now apply to LDCs. These would allow the PSC to:

- Review a marketer's financial, managerial and technical ability to provide gas service before allowing them to operate in Kentucky.
- Revoke, suspend, modify or limit a marketer's permission to operate in Kentucky for a failure to comply with standards set by the PSC.
- Penalize marketers for violation of PSC statutes, regulations or orders.
- Adjudicate complaints by consumers or LDCs against marketers.
- Develop and enforce a code of conduct for marketers.
- Require marketers to file tariffs setting forth their rates, terms and conditions of service.

With such safeguards in place, retail competition in natural gas can take place in a way that protects customers from problems such as deceptive marketing or marketer failure, the PSC said. However, the benefits of expanded competition, especially for residential customers, are not guaranteed, the report concluded.

The report and all evidence in the case are available on the PSC website, psc.ky.gov. A video of the hearing in the case, which took place on Oct. 19-20, also is available for viewing or downloading. The case number is 2010-00146.

A list of all parties in the case follows this news release.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.

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LIST OF PARTIES TO THE CASE FOLLOWS

PARTIES TO CASE 2010-00146

LOCAL GAS DISTRIBUTION COMPANIES

- Atmos Energy Corp.
- Columbia Gas of Kentucky
- Delta Natural Gas Co.
- Duke Energy Kentucky
- Louisville Gas and Electric Co.

PARTIES GRANTED INTERVENTION

- Kentucky Office of Attorney General
- AARP
- Association of Community Ministries
- Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties
- Interstate Gas Supply
- MXenergy
- ProLiance Energy
- Retail Energy Supply Association
- SouthStar Energy Services
- Stand Energy Corp.
- Vectren Retail
- WalMart