

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

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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