



# STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL  
TEN FRANKLIN SQUARE  
NEW BRITAIN, CT 06051

DOCKET NO. 00-07-18 DPUC REPORT ON WAYS TO ENCOURAGE  
COMPETITION AMONG GAS SUPPLIERS AND TO  
INCREASE THE NUMBER OF NATURAL GAS  
SUPPLIERS PROVIDING NATURAL GAS IN THE STATE

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**REPORT**

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# REPORT

## EXECUTIVE SUMMARY

This docket addresses the statutorily mandated Department of Public Utility Control review of ways to encourage competition among gas suppliers and to increase the number of natural gas suppliers providing natural gas in the state. Upon completion of its review, the Department concludes that greater competition in the natural gas market provides benefits including price reductions and new choices among products and service offerings, and that further unbundling will increase the number of gas suppliers in the state and result in more gas competition.

Accordingly, the Department will proceed with the unbundling of the gas market and continue to address and resolve issues that are presently before or scheduled to be before the Department including rate design, supplier of last resort, capacity cost allocation, access to primary delivery point, upstream capacity, and cross-subsidization among customer classes. The Department will continue to act in its role as overseer for issues of safety and reliability, consumer protection and education and review of unbundling results, as well as serving as legislative liaison on unbundling issues.

### I. INTRODUCTION

#### A. STATUTORY CHARGE

Section 1 of Public Act No. 00-221, An Act Concerning the Regulation of Gas Companies and Establishing a Database of Published Telephone Numbers, requires that the Department of Public Utility Control (Department), in consultation with the Office of Consumer Counsel (OCC), gas companies as defined in Section 16-1 of the General Statutes of Connecticut (Conn. Gen. Stat.), and natural gas sellers required to register pursuant to Conn. Gen. Stat. 16-258a, to study ways to encourage competition among gas suppliers and to increase the number of natural gas suppliers providing natural gas in the state. The Report and recommendations are to be made available no later than January 1, 2000, to the Joint Standing Committee of the General Assembly having cognizance of matters relating to energy.

#### B. BACKGROUND

On April 1, 1996, the Department unbundled the transportation portion of regulated natural gas service to commercial and industrial (C&I) customers, which allowed those customers to buy firm transportation service separate from gas supply. In July 1997, the Department initiated Docket No. 97-07-11, DPUC Generic Investigation into Issues Associated with the Unbundling of Natural Gas Services by Connecticut Local Distribution Companies – Phase I. The purpose of Phase I in this uncontested docket was to investigate issues associated with the unbundling of natural gas services to assist the local distribution companies (LDCs), gas suppliers (at that time there were 55 registered suppliers), and end users in making informed choices regarding firm transportation service. Additionally, the Department held Collaborative Meetings on November 7, 13, 21, and 25, and December 5, 1997. The meetings were attended by over 50 participants and included representatives from the OCC, Office of Policy and

Management, LDCs, suppliers and other interested entities. As a result of the meetings, the participants filed a joint, comprehensive Report from the Collaborative Meetings (Collaborative Report) dated December 19, 1997. The Collaborative Report addressed issues such as:

1. simplified contracts and agreements;
2. simplified and consistent tariffs;
3. separate tariffs for gas customer and marketer service;
4. specific operating procedures for customer pools;
5. establishment of procedures, terms and conditions for nomination and confirmation;
6. establishment of procedures, terms and conditions for allocation, balancing and gas flow measurement;
7. establishment of procedures, terms and conditions for imbalance, penalty and cashout methods; and
8. billing.

In the Decision dated July 23, 1998, in Phase I of Docket No. 97-07-11, the Department evaluated the new transportation tariffs, proposed principles to guide further unbundling, identified essential or valuable elements of natural gas service and laid out the unbundling tasks that remain to be done. Consequently, the Department reopened each LDC's last rate case for the purpose of modifying their provision of firm gas sales and transportation service. Docket No. 95-02-07, Application of the Connecticut Natural Gas Corporation for a Rate Increase – Reopened Re: Unbundling; Docket No. 93-03-09, Application of The Southern Connecticut Gas Company to Increase its Rates and Charges – Reopened Re: Unbundling; and Docket No. 92-02-19, Application of the Yankee Gas Services Company for an Increase in Rates – Reopened Re: Unbundling. On October 28, 1998, the Department issued an Interim Decision in these dockets that addressed the joint recommendations outlined in the Collaborative Report. The Interim Decision included approval of separate tariffs for marketers and end-users, simplified transportation customer sign-up procedures, and customer billing practices.

On September 4, 1998, the LDCs filed testimony addressing numerous complex issues including metering, balancing, penalties, and FTS-3. In the Decision dated March 17, 1999, in Docket Nos. 95-02-07, 93-03-09 and 92-02-19 the Department approved certain modifications to the LDCs firm transportation tariffs. These modifications included: metering charges, balancing, penalties, standby service, storage service, FTS-3 and personal identification numbers (PINS). The determination of these issues by the Department completed the more extensive and comprehensive unbundling of firm transportation services for C&I customers.

In Docket No. 97-07-11, the Department identified as Phase II issues the remaining unbundling steps to be taken for certain services or aspects of service. These include:

- Establishment and enforcement of a code of conduct for LDCs and their affiliates.
- Determination and responsibilities of the supplier(s) of last resort.

- Determination and responsibilities of entity(ies) maintaining system integrity and reliability.
- Establishment of consequences for failure by responsible entities to provide reliable service.
- Resolution of a host of as yet unresolved supply and demand issues, including further determination of the services and/or aspects of service to be provided by competitive markets, the rules under which these markets will operate and the process by which to ensure the adequate performance of these markets.
- Determination and establishment of the natural gas supply services and/or aspects of service to be provided by the LDCs and the rules under which they will be provided.
- Determination and adoption of procedures to ensure adequate and efficient access by marketers to upstream facilities.
- Determination and adoption of procedures to facilitate direct contracting between LDCs and marketers as a means of increasing efficiency in the provision of services and/or aspects of service.
- Determination of the exposure, amount, responsibility and recovery of costs that will be unrecoverable or strandable in competitive markets.
- Establishment and enforcement of a code of conduct for marketers.
- Establishment, as needed, of performance bonds for marketers.
- Establishment of procedures and mechanisms, as needed, to provide end-users with efficient access to marketers and their service tariffs.
- Implementation of residential choice, including necessary unbundling.
- Establishment of procedures to deal with potential slamming issues.
- Establishment of procedures and practices to resolve public policy issues.
- Establishment of procedures and processes to provide for consumer education and protection.
- Establishment of a protocol to meet the needs of low-income customers.
- Determination of and adjustment for the effect of termination of certain service regulations on LDCs and marketers.
- Establishment of procedures and processes to provide for conservation obligations and economic development issues as needed.
- Establishment of procedures, practices and processes that maintain or improve public health and safety.
- Establishment of procedures and practices that will accomplish necessary, fair and efficient curtailment in an end-user choice environment.
- Determination of and adjustment for the revenue effects of end-user choice and/or unbundling.
- Modification or termination of previous orders that are no longer necessary or should be adjusted as a result of unbundling.
- Determination and enactment of necessary changes to the regulation of LDCs, including necessary changes to any related rules and statutes.

The Department expects to proceed with Phase II of Docket No. 97-07-11 in 2001 to resolve the aforementioned issues.

### **C. CONDUCT OF THE PROCEEDING**

On its own motion, the Department established the instant uncontested docket to address its statutory charge. See Conn. Gen. Stat. §16-11 and Public Act No. 00-221. Pursuant to Notices of Meetings dated July 25 and August 2, 2000, meetings were held at the offices of the Department on August 7 and October 2, 2000, respectively, to discuss issues regarding the timing and development of the requisite report and recommendations.

At the meeting on August 7, 2000, the Department considered the various participants' views on the form, substance and timing of initial submissions relative to the instant docket. It was decided among the 28 persons in attendance that the participants (excluding Department staff) would file with the Department comments relative to the statutory charge by September 15, 2000. These comments would be discussed at meetings scheduled for October 2, 3 and 4, 2000, at the Department.

The major issues from the September 15, 2000, comments were addressed at the October 2, 2000, meeting. It was determined that the participants would file additional comments on the Department's future role in an unbundling environment by October 16, 2000. The October 3 and 4, 2000, meetings were considered unnecessary and canceled. The Department issued a draft report on November 15, 2000, for comment by the participants.

### **D. INTERESTED PERSONS**

The following entities participated in the instant docket: AllEnergy Marketing Co.; Amarada Hess Corp.; ChooseEnergy.com, Inc.; CT Energy Cooperative; Energy East Solutions; LEVCO Tech, Inc. (collectively the Supplier Group); Connecticut Natural Gas Corporation (CNG); CT Energy Cooperative; Energy Resource Specialists; New England Energy, LLC; Niagara Mohawk Energy Marketing, Inc.; Office of Consumer Counsel; Powerspring, Inc.; SCASCO; Select Energy, Inc. (Select); The Southern Connecticut Gas Company (Southern) and Yankee Gas Services Company (Yankee). All natural gas suppliers registered in the state were invited to participate.

## **II. NATURAL GAS COMPETITION IN CONNECTICUT**

As part of an ongoing process, the Department has been evaluating the ability of the gas industry's players to meet the challenges and changes of evolving customer demands through the upcoming years. Effectively managing the transition is critical, as all stakeholders must learn new roles. The Department is committed to continue opening up the natural gas market to competition and to ensure that competition provides safe and reliable service at the lowest possible cost to society. The Department believes that well-functioning competitive markets provide significant benefits, and we are committed to assuring that (1) full and fair competition exists in the marketplace (2) customers benefit from increased choices and improved performance resulting from a more competitive industry; (3) there is increased throughput and utilization and (4) core customers continue to receive quality service at affordable rates.

From the eight submissions that were received from the participants on September 15, 2000, the Department compended 34 items of concern for discussion at the October 2, 2000, meeting.

#### **A. UNBUNDLING ISSUES**

In general, the participants identified unbundling and “leveling the playing field” with proper cost allocations as the major themes for increasing competition and the number of gas suppliers. The major unbundling issues raised in the submissions were:

1. Whether the LDCs should exit or maintain the merchant function.
2. Concerns related to system reliability.
3. Supplier of last resort issues.
4. Consumer protection measures and consumer education.
5. Customer choice enhancements including opening the market for residential customers.
6. Electronic communications efficiency and standards.
7. Customer billing efficiencies and practices.
8. Customer metering practices.
9. Customer information sharing and information data exchange.
10. LDC and supplier operational standardization.
11. Customer repair service issues.

At the October 2, 2000, meeting a review of the issues resulted in the participants’ realization that discussion of those items would be imprudent because of ongoing Department dockets. In the Phase I Decision dated July 23, 1998, in Docket No. 97-07-11, the aforementioned major issues as well as many other issues, were identified as Phase II issues in that upcoming proceeding. Decision, pp. 29 and 30.

#### **B. RATE DESIGN AND COST ALLOCATION**

The participants identified several rate design and cost allocation issues as follows:

1. implementing rate design reflecting cost causation;
2. eliminating weighted average cost of gas (WACOG);
3. allocating shifted costs;
4. eliminating cross-subsidies;
5. sharing societal and tax costs to produce rate stability;
6. using cost-based tariffs for distribution and commodity services; and
7. reevaluating the current system of penalties and cashouts.

In the recent Decision dated July 5, 2000, in Docket No. 99-03-28, DPUC Review of Natural Gas Companies Cost of Service Study Methodologies, the Department established a cost of service study (COSS) standard for LDCs that directly addressed many issues surrounding the unbundling of gas services. This new standard is consistent with the Department’s primary policy objective of promoting a more competitive natural gas industry in the state. That Decision required the LDCs to file a revised cost of service study, proposed tariffs and rate schedules and supporting

testimony. Decision, p. 29. The LDCs were ordered to submit compliance filings as follows: CNG as Phase III of Docket No. 99-09-03, Application of Connecticut Gas Corporation for a Rate Increase; Southern as Phase IV of Docket No. 99-04-18, DPUC Review of The Southern Connecticut Gas Company Rates and Charges; and Yankee as part of its Conn. Gen. Stat. 16-19 rate application to be filed in early 2001. To expedite the process, the Department directed CNG and Southern to each file a preliminary revised COSS in Docket No. 99-03-28, which both companies did on September 7, 2000.

The Department reviewed CNG's revised COSS and initially found that the overall structure and allocation methodologies adopted in their COSS were acceptable. Consequently, CNG was directed to file its final COSS, proposed tariffs, rate schedules and a special study regarding upstream capacity. This was filed on November 10, 2000, in Docket No. 99-09-03PH04, and the Department is currently reviewing it. The Department reviewed Southern's revised COSS and found it deficient. On October 31, 2000, the Department met with Southern regarding differences in its preliminary revised COSS to the standard stated in the Decision in Docket No. 99-03-28. Southern is expected to file another revised COSS by the end of 2000. Yankee's preliminary revised COSS is to be filed no later than February 1, 2001. In addition, Yankee will be filing a rate application pursuant to Conn. Gen. Stat. § 16-19 in the first quarter of 2001. Therefore, the Department will address Yankee's rate design and cost allocation issues in those future proceedings.

### **C. REGISTERED NATURAL GAS SUPPLIERS**

On April 1, 1996, the Department allowed third party suppliers to sell natural gas in direct competition with the Connecticut LDCs. These suppliers include national and local energy marketing companies. The Department is currently in the process of informing the 65 registered natural gas suppliers in the state of the new registration criteria required by Public Act No. 00-91 (P.A. 00-91) as it applies to Conn. Gen. Stat. § 16-258a. Specifically, P.A. 00-91 requires natural gas suppliers other than LDCs to maintain a bond or other security to insure financial responsibility and its supply of natural gas to end-users. Additionally, the suppliers are required to have a contractual relationship with entities to purchase natural gas supply, comply with applicable labor and trade laws, and cooperate with LDCs and pipelines in the event of an emergency condition. Registrants are required to file an annual form accompanied by an annual fee that does not exceed the Department's administrative costs. P.A. 00-91 also provides for Department sanctions and penalties similar to those applicable to LDCs.

To date, there are approximately 8,000 customers serviced by third party suppliers. For the 12 months ending September 30, 2000, the registered suppliers supplied a total of approximately 24,015,922 Mcf to C&I customers, or the equivalent of 37% of the LDCs' total firm load. In CNG's service territory, there was a total of 6,710,674 Mcf of gas transported by third party suppliers which is equivalent to 33% of CNG's firm sales customer load. For Southern, third party suppliers delivered 4,570,040 Mcf for calendar year 1999 or 25%. In Yankee's service territory, third party suppliers delivered 12,735,208 Mcf which approximates 53%.

**D. COMMENTS REGARDING THE FUTURE ROLE OF THE DEPARTMENT**

The Supplier Group, Select, OCC, and the three LDCs filed comments on the future role of the Department. The Supplier Group and Select generally agreed that the Department's traditional oversight role should continue, and highlighted four new roles for the Department and staff. The roles are:

1. leader in the effort to further unbundle natural gas service and open natural gas markets;
2. provider of information and education;
3. mediator/facilitator; and
4. steward of competition.

Select Comments, pp. 1 and 2; Supplier Group Comments, pp. 1-4.

The OCC believes that the Department has a multifaceted role in unbundling and the creation of a competitive natural gas marketplace in Connecticut. OCC pointed out that the unbundling transition to date has enabled the industrial and larger user commercial customers of the LDCs to derive benefits from a competitive gas supply. It believes that the Department must actively pursue the development and opening of a competitive marketplace in Connecticut for the remaining customers. OCC also stated that the Department's quasi-judicial role must be preserved. OCC Comments, pp. 1 and 2.

CNG believes the Department has three separate and distinct roles in a natural gas unbundling model. These are defined as the (1) traditional role, (2) non-traditional role and (3) legislative advocacy role. The Department's traditional role provides the foundation for the separation of monopoly and non-monopoly services through its oversight. The non-traditional role is the continuation of further retail unbundling oversight, and refereeing multi-party processes such as ensuring reliability standards. The legislative advocacy role represents the Department's involvement in shaping and implementing state utility policy. CNG believes that Department must provide its guidance and wisdom to legislators who set the policy for the Department to ultimately implement. CNG Comments, pp. 1-3.

Southern envisions the Department's function evolving as a facilitator and overseer of an increasingly competitive market. It stated that the Department could accomplish that end by: (1) modification to a more progressive system of regulation of the rates and services provided by LDCs; (2) prompt resolution, within its current authority, of outstanding industry unbundling structure issues; and (3) provision of advice to the legislature on statutory impediments to ensure that regulation of, and opportunities in, the natural gas industry keep pace with the markets. Southern Comments, pp. 1 and 2.

Yankee indicated that the Department's role should reflect the size and pace of the steps to be taken in the near future to encourage gas competition. Specifically, it recommended: (1) a role as arbiter of disputes among parties providing services to gas customers; (2) a more active involvement in protecting Connecticut customers by performing an increased administrative role in monitoring responsibilities; and (3) a

facilitation, guidance and oversight role with emphasis on the Department's role in licensing suppliers, customer protections and coordination with the gas industry. Yankee Comments, pp. 1-3.

The Department envisions its traditional role evolving as unbundling progresses. We expect that the LDCs, natural gas suppliers, and the consumers should all benefit from increased competition. Additionally, the Department will take a proactive role in its oversight of safety and reliability issues, consumer protection and education, and tracking the results of unbundling. As in the past, the Department will continue its role as legislative liaison on behalf of all the parties and customers in the state.

## **E. CONCLUSION**

As the state moves toward a more competitive environment in the natural gas industry, the Department will deal with pending unbundling issues in a fair and reasonable manner. Increased competition in the natural gas market is generally expected to provide benefits. Those benefits include price reductions and new choices among products and service offerings. Improving competition requires changes to the LDCs' rate structure and to the structure of the supply function. The way to encourage competition is to level the playing field between the different suppliers so that competition is more fair. Leveling the playing field involves addressing and resolving issues that are either presently before the Department or scheduled to be addressed in future proceedings. Some of the unresolved issues include rate design, supplier of last resort, capacity cost allocation, and access to primary delivery point and upstream capacity. Moreover, rates for all services must be unbundled sufficiently to ensure elimination of cross-subsidies among customer classes as much as possible.

The nature of delivery service, and of ancillary services such as balancing, must allow natural gas suppliers to provide customers with the full benefits expected from competition. To achieve this end, the Department determined that a major component in this process was to ensure that firm and transportation services were appropriately designed so that no cross-subsidization is allowed. The first step in this process was for the Department to establish a cost of service study standard for the LDCs. See the Decision in Docket No. 99-03-28. Using the revised COSS standard as a guideline, the LDCs will be proposing tariff and rate schedule revisions. These proceedings are currently under way at the Department. The Department is committed to resolving the remaining unbundling issues in Phase II of Docket No. 97-07-11.

The Department is diligent in its efforts to continue opening up Connecticut's natural gas market to competition, and ensuring that the competition provides safe and reliable service at the lowest possible cost to consumers. The participants in this proceeding and the Department agree that further unbundling will result in more gas competition and increase the number of gas suppliers in the state. There is still much work to be done to remove existing barriers to competition. The Department is committed to encouraging competition and to increasing the number of natural gas suppliers in the state.

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COMPETITION AMONG GAS SUPPLIERS AND TO  
INCREASE THE NUMBER OF NATURAL GAS  
SUPPLIERS PROVIDING NATURAL GAS IN THE STATE**

This Decision is adopted by the following Commissioners:

Donald W. Downes

Glenn Arthur

John W. Betkoski, III

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Department of Public Utility Control, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.

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Louise E. Rickard  
Acting Executive Secretary  
Department of Public Utility Control

December 6, 2000  
Date