

## Investigation into Competition in Natural Gas Market Adds to Industry's Headache

News that the Pennsylvania Public Utility Commission intends to convene stakeholders over why no "effective competition" exists in the retail natural gas market ratchets up the stress of an already jittery industry. Gas companies are already fretting over escalating wholesale prices, and criticism of a recently enacted law aimed at topping some customers from endlessly working the system to prevent paying their utility bills.

"With everything else going on, we haven't even had time to worry about it," said one industry official referring to the PUC's plan.

The 1999 state law that established competition at the retail natural gas level calls for an investigation into the competitive market five years after the law takes effect. After 14 months of research, the PUC announced in a news release, which also contained the no "effective competition" characterization, that it intended to convene the stakeholders.

One retail natural gas company, Columbia Gas of Pennsylvania, reported that as of July it had eight active competitors in its market area.

"It's my understanding that we have the most robust choice program in the Commonwealth," Columbia spokesman Rob Boulware said.

Wholesale natural gas prices have quadrupled since 1999, and are expected to keep rising. The increases have not only put a strain on home owners, but on businesses and utilities as well.

"Federal, regional and state environmental policy has caused the electric industry to rely more on natural gas to produce power," explained Douglas L. Biden, President of the Electric Power Generation Association. "Now we're beginning to see the results of those policies – a huge surge in regulatory induced demand and not enough supply to meet it."

The 1999 Natural Gas Choice and Competition Law allows customers to purchase gas from independent suppliers, while still having their gas physically delivered by PUC-regulated distribution companies. The law directed the PUC to investigate the level of competition five years after the law went into effect and to report its findings to the General Assembly.

The Commission opened the investigation in May 2004, and asked natural gas distribution companies (NGDCs), natural gas suppliers (NGSs) and interested parties to comment on the level of competition in the market. On Sept. 30, 2004, the PUC held an en banc hearing for further exploration. After an extensive review of the investigation's evidence, the Commission determined that there is not effective competition in the retail natural gas supply market at this time.

Through the investigation, the Commission found that:

- The record demonstrates a lack of participation by natural gas suppliers and buyers in the retail natural gas supply services market on a statewide basis.
- According to suppliers, substantial barriers to entry in the retail natural gas market exist because of differing security requirements among NGDCs.
- According to suppliers, substantial barriers to entry and continued participation by NGSs exist as the result of the omission of procurement, administrative and other costs from the NGDC's price to compare.
- According to suppliers, substantial barriers to supplier participation exist because of penalties placed on suppliers that vary among NGDC systems which are not cost-based.
- The marketplace lacks accurate and timely price signals; as a result, the market cost of natural gas supply service offered by natural NGDCs is not communicated immediately to customers.

## Agenda for Wide Ranging Energy Investigation Set by House Environment Committee

The first in a series of hearings investigating Pennsylvania's long-term energy needs and policies has been set by the House Environmental Resources and Energy Committee for Tuesday, October 18 in Harrisburg. Additional hearings are likely to continue at least through the Fall legislative session.

Scheduled to appear before the committee is an official with the National Conference of State Legislatures, to brief the committee on what other states are doing on energy issues and the process they are going through;

A Department of Energy representative, to provide a short-term energy outlook;

A PJM Interconnection representative, to provide an overview of electric and natural gas issues in the region, and energy issues the General Assembly should be focusing on.

The Committee plans to hold another informational meeting in November to look at energy efficiency and renewable sources of energy.

## Electric Power Industry Urges “Balance and Coordination” in Developing Nationwide Reliability Standards

In recent remarks filed with the Federal Energy Regulatory Commission (FERC), an association representing the nation’s power suppliers, the Electric Power Supply Association, or EPSA, urged regulators to maintain the integrity of the wholesale market when promulgating new rules that mark a major shift in developing and maintaining reliability in the system.

“EPSA welcomes the Congressional recognition in the Energy Policy Act of 2005 that reliability and competition are inextricably linked, and it commits to working with FERC, all reliability organizations and customers to ensure that reliability requirements, competitive markets and consumer needs are harmonized,” said John E. Shelk, EPSA’s president and CEO.

Approved in August, the Energy Act called for the creation of the Electric Reliability Organization (ERO). The law also gives FERC the authority to approve the rules ERO will use to maintain nationwide reliability standards. Currently, the standards are maintained by the North American Electric Reliability Council (NERC), which was established after the Northeast blackout of 1965.

Keeping with the Energy Act’s timetable, FERC is hoping to issue final-form regulations at the beginning of next year. A number of issues have to be settled by then, including enforcement and penalty rules, language that is now being crafted.

Shelk state that the presumptive national reliability council will be NERC, and he said that EPSA supports that principle, predicting that “NERC will proactively coordinate the development of its reliability standards with related business practice standards that enable market solutions to the maximum extent possible.”

The proposed regulations allow the ERO, subject to FERC approval, to delegate authority to a Regional Entity (RE) for the specific purpose of proposing Reliability Standards to the ERO and enforcing Reliability Standards. Shelk noted that FERC must carefully evaluate how a putative RE will promote the effective and efficient administration of bulk power system reliability and ensure independence, consistency, and uniform due process and appeals processes in that evaluation.

“Regional variations must be limited to address truly unique circumstances requiring measures reasonably designed to supplement ERO Reliability Standards, not serve as a substitute for them,” Shelk said.

## Research Center Refutes Reports Linking Emissions With Ill Health

A major science research center, The Annapolis Center for Science-Based Public Policy, has published a number of reports challenging recent reports in some media outlets that link emissions from power plants to certain illnesses and chronic health syndromes.

One report demonstrates why power plant emissions have little impact on mercury exposure in the U.S. The author, Jon M. Heuss, refutes claims that utility emissions are harming U.S. children and causing mercury hotspots, an argument backed up by a recent Center for Disease Control Study.

Another report by Heuss, a critique of “Dirty Air, Dirty Power”, a report by Clear the Air, shows that the underlying science used by the report to tie power plant emissions and ill health is grossly misleading.

To view these and other science-based reports go to [www.annapoliscenter.org](http://www.annapoliscenter.org)