

# **NATURAL GAS CUSTOMER CHOICE: STATES' POLICY ANALYSIS**

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Energy and Telecommunications Interim Committee  
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**MONTANA STATE LEGISLATURE**

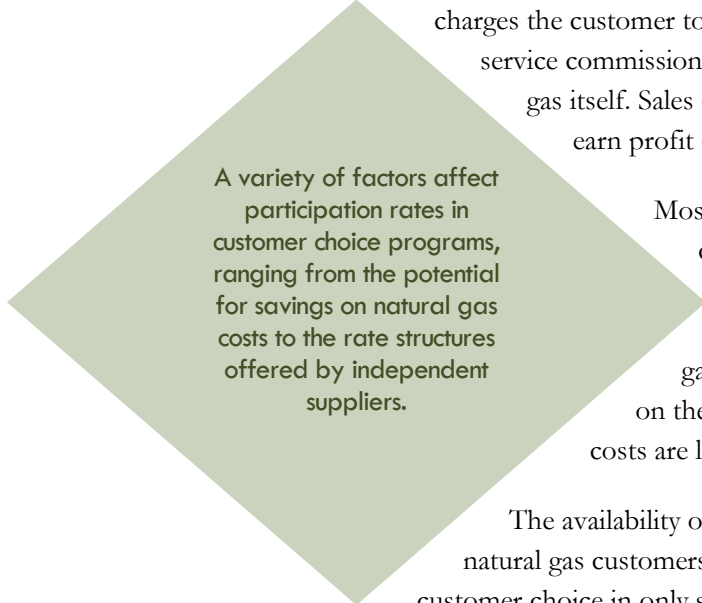
# NATURAL GAS CUSTOMER CHOICE: STATES' POLICY ANALYSIS

After hearings in the House Energy, Technology, and Federal Relations Committee, the 2017 Montana Legislature passed House Joint Resolution No. 28 requesting the study of Natural Gas Customer Choice. The legislature requested the study to identify the costs for monopoly utilities to open their gas systems to consumer choice, the costs that could be passed on to consumers, and the merits and complications of customer choice companies.<sup>1</sup>

Currently, NorthWestern Energy customers in western Montana are able to participate in customer choice programs by selecting a third-party gas supplier for their utility needs. The same choice is not available to Montana Dakota Utilities (MDU) customers in the east.

## INTRODUCTION

Natural gas customer choice programs allow customers to purchase natural gas from a natural gas supplier or marketer other than the local natural gas utility. If a customer chooses to buy from a natural gas marketer, that marketer procures the natural gas from other sources and arranges its delivery to the local natural gas utility's system. The local natural gas utility commonly charges the customer to transport and distribute the gas on its system. State public service commissions don't allow local natural gas utilities to earn a profit on natural gas itself. Sales of natural gas by marketers are unregulated and marketers may earn profit on the company's sales.<sup>2</sup>



A variety of factors affect participation rates in customer choice programs, ranging from the potential for savings on natural gas costs to the rate structures offered by independent suppliers.

Most customer choice programs began in the 1990s to promote competition in local energy markets. Natural gas is often offered as a bundled service that includes both the price of natural gas and the price for distributing gas to consumers. Sales of natural gas by marketers are unregulated, and marketers may earn a profit on the sale of natural gas. In several customer choice programs these costs are listed separately on a bill or charged on two separate bills.<sup>3</sup>

The availability of customer choice programs varies with some states allowing all natural gas customers to choose an independent supplier and others allowing optional customer choice in only specific service areas. A variety of factors affect participation rates in customer choice programs, ranging from the potential for savings on natural gas costs to the rate structures offered by independent suppliers.

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<sup>1</sup> House Joint Resolution No. 28, 2017 Montana Legislature

<sup>2</sup> How customer choice programs work, U.S. Energy Information Administration


<sup>3</sup> How customer choice programs work, U.S. Energy Information Administration

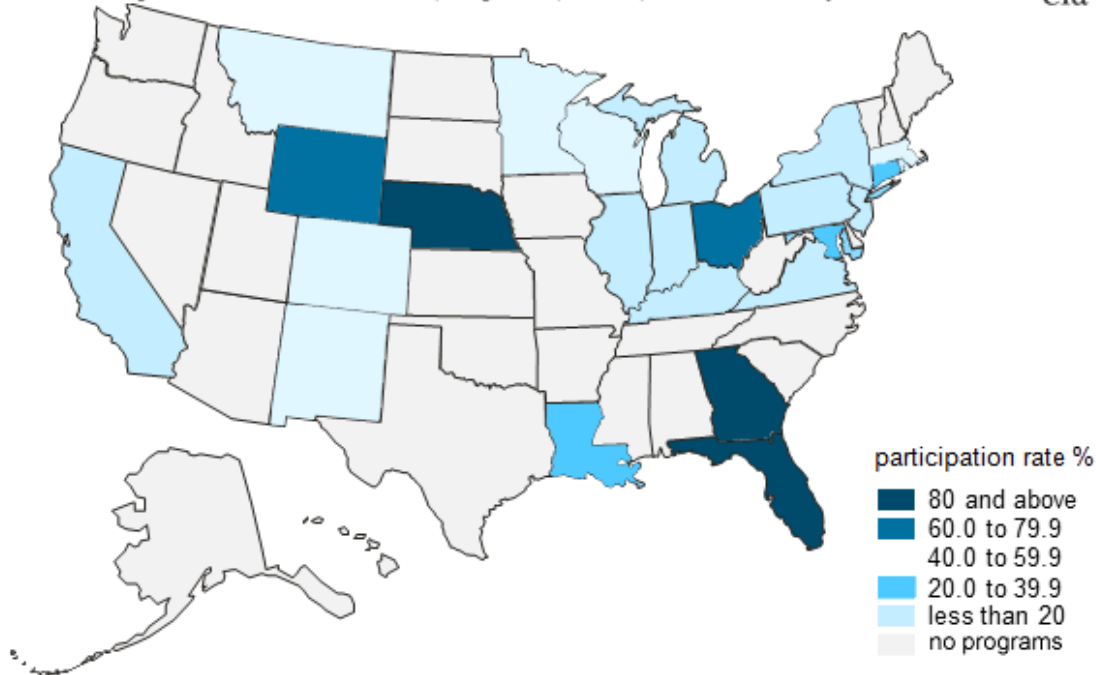
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## CUSTOMER CHOICE STATES

Currently, 24 states offer natural gas customer choice programs to residential customers in at least one service area in the state. In the West, California, Colorado, Montana, Nevada, New Mexico and Wyoming allow a form of natural gas customer choice programs in the state.<sup>4</sup>

## PARTICIPATION RATES

Natural gas consumer choice program participation rates by state, 2015 



Note: Participation rate is the percentage of eligible customers who participate in available residential sector customer choice programs.

Source: U.S. Energy Information Administration, *Natural Gas Annual*, Table 26, September 2016

Customer participation rates in natural gas customer choice programs vary widely based on the characteristics of rate structures from independent suppliers in a given state. The following table details the residential participation in customer choice programs across the U.S.

<sup>4</sup> State-by-state Information, American Coalition of Competitive Energy Suppliers

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State	Number of Customers	Eligible	Participating
California	10,916,362	6,735,973	404,843
Colorado	1,735,970	1,269,338	0
Connecticut	541,545	3,061	714
District of Columbia	148,545	148,516	18,367
Florida	731,744	18,113	16,881
Georgia	1,793,371	1,478,305	1,478,305
Illinois	3,896,736	2,965,633	326,923
Indiana	1,720,442	752,051	68,720
Kentucky	766,514	121,364	20,958
Maryland	1,124,075	1,067,665	232,082
Massachusetts	1,494,568	1,474,610	19,403
Michigan	3,240,462	3,227,729	372,314
Minnesota	1,506,297	778,731	0
Montana	272,483	196,212	1,620
Nebraska	535,245	67,703	67,703
New Jersey	2,753,463	2,756,571	155,694
New Mexico	582,888	480,629	79
New York	4,466,904	4,473,044	777,733
Ohio	3,326,608	3,163,421	2,531,186
Rhode Island	239,038	244,086	0
Virginia	1,209,500	730,526	69,975

Wisconsin	1,738,858	1,105,735	0
Wyoming	164,454	73,081	45,241

Source: Energy Information Administration (EIA), Form EIA-176, “Annual Report of Natural and Supplemental Gas Supply and Distribution.”

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## STATE POLICIES

### Top-three states

The top three states by total volume of natural gas delivered by local utilities for independent distributors in 2016 were Georgia (86 percent), Ohio (80 percent), and New York (29 percent).<sup>5</sup>

### Georgia

Customer choice is available to customers on the Southern Company Gas system.<sup>6</sup>

In 1997, the Georgia General Assembly adopted Senate Bill 215, a new regulatory model that allowed competitive marketers to operate customer choice programs. The law required marketers to obtain a certificate of authority demonstrating adequate financial and technical ability to sell or offer to sell natural gas in the state. In 2002, the General Assembly passed the Consumers' Relief Act to set forth a Consumer Bill of Rights and to establish a regulated provider for low-income and high risk customers.<sup>7</sup>

### Ohio

Customer choice is available to residential and non-residential customers in the AEP Ohio, Dayton Power & Light, Duke Energy Ohio, and First Energy service systems.<sup>8</sup>

The Public Utilities Commission of Ohio (PUCO) introduced customer choice in 1997. Retail natural gas suppliers must be certified by the commission pursuant to section 4929.20(A) of the Ohio Administrative code.

<sup>5</sup> Energy Information Administration (EIA), Form EIA-176, “Annual Report of Natural and Supplemental Gas Supply and Distribution.”

<sup>6</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information

<sup>7</sup> Georgia Public Service Commission, “Natural Gas Competition in Georgia”

<sup>8</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information

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## New York

Customer Choice is available for residential and non-residential consumers in the Central Hudson, ConEd, Corning Natural Gas, National Grid, National Fuel Gas Distribution, NYSEG, Orange & Rockland, RG&E, and St. Lawrence Natural Gas Utility Territories.<sup>9</sup>

In 1996, the New York State Public Service Commission (NYPSC) approved plans to allow customers the option to buy their natural gas and electric supply from companies other than their local utility company. Under current law the NYPSC requires the following consumer protections:

- A statement disclosing complaint resolution processes;
- A 15-day notice before discontinuing service;
- Customer choice of service from another independent supplier or the utility when a current supplier discontinues service;
- Clear procedures for switching suppliers;
- Convenient complaint handling procedures;
- And independent suppliers must comply with the Home Energy Fair Practices Act and PSC orders regarding payment allocation.<sup>10</sup>

## Western States

### California

In California, natural gas customer choice programs are known as “Core Aggregation” or “Core Transportation” programs. The programs are available to residential and small commercial customers on the Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Gas systems.<sup>11</sup>

California has offered customer choice since the early 1990s. The California Public Utilities Commission (CPUC) requires independent suppliers to register with the commission. Senate Bill 656 gave the CPUC the authority to prosecute suppliers that do not comply with minimum standards set forth by the CPUC.<sup>12</sup>

### Colorado

Colorado law allows natural gas utilities to offer choice programs, but no programs have been proposed by utilities in the state.<sup>13</sup>

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<sup>9</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information

<sup>10</sup> New York Public Service Commission, “Energy Choices – The Facts from the PSC.”

<sup>11</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information

<sup>12</sup> California Public Utilities Commission, “Natural Gas Customer Choice in California.”

<sup>13</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information

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## Nebraska

Customer choice is available in the SourceGas utility territory.<sup>14</sup>

## New Mexico

New Mexico law allows customer choice for residential customers, but participation in the program is limited.<sup>15</sup>

## Wyoming

Customer choice is available in the SourceGas utility territory.<sup>16</sup>

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<sup>14</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information

<sup>15</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information

<sup>16</sup> American Coalition of Competitive Energy Suppliers, State-by-State Information