



USAID
FROM THE AMERICAN PEOPLE



National
Association of
Regulatory
Utility
Commissioners

Role of the Regulator in Monitoring Natural Gas Markets

Donald L. Mason, Esq.

Commissioner Ohio Public Utilities Commission



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Gas Consumption by Category in USA

- Residential: home heating, appliances (cooking, hot water, outdoor grill), **21%**
- Commercial: space heating, hot water, cooking/frying, **13%**
- Industrial: processes; feed stock (chemical/fertilizer), **33%**
- Vehicular fuel (compressed natural gas), **<1%**
- Electric generation: gas turbines, **24+%**



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Purpose of Regulation

- Preferably Markets should operated in the absence of economic regulation
- Examples include: Bus, taxi, ferry, airlines, railroad, motor carrier, cellular phone, lodging, medical, commodity, insurance, heavy and light manufacturing, service sector ,cable and satellite television, etc.
- Regulation of electricity, telephone and natural gas came about because of specific public benefits from regulation outweighed factors favoring no regulation



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Regulatory Benefits

- Initially each of the three major utility sectors were developed by the private or public sector in the absence of economic regulation
- This created confusion, redundant investment, risky investment and reduced the rollout of utilities to broad geographic areas. Dense and affluent areas were served while rural or low income areas were ignored
- Ohio created the PUCO with the purpose of creating a regulated environment in selected markets



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Economic Regulation and Oversight

- “Public Policy” determined that the interest of the public is best served if investment in utility infrastructure could be increased
- Increased investment could be made less risky to investors if it were in a monopoly environment.
- However, the public would need the government to regulate the economics of the industries in order to protect the public from price manipulation and low quality of service



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Competition and Regulation in the Natural Gas Sector

- In the 1980's the Federal Energy Regulatory Commission took the lead in creating competition in the natural gas field.
- Natural Gas industrial and large commercial companies were given the flexibility of purchasing natural gas separately from the pipeline the transported gas through or from the storage fields they injected gas for storage
- Purchasers and users of large quantities of gas could leverage different markets and pipelines to reduce costs



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

States and Competition

- After a decade of “unbundling” and competition and the national level, many states looked to see what benefits were available to small commercial and residential consumers
- Georgia and Ohio were the lead states in developing retail competition though other states have a more limited participation in retail competition and choice
- Many other states such as Texas, Pennsylvania, Massachusetts and California have competition



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Regulation of the Delivery

- The utility function is split between the delivery of the gas and the purchase of the natural gas
- The utility makes a return on it's investment based on the volume of gas it moves through the system but does not make any profit on the sale of the gas
- Likewise, when a retail customer uses a “choice” provide, the utility is neutral to the price the marketer and customer agree to.
- The marketer and utility must come to terms on the details of delivery; volume, location, btu content



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Role of the Regulator

- The Commission transitions to being a judge or referee between the gas utility and the marketer.
- The Commission continues to be the final word in disputes between the utility and retail or residential customer on service quality issues
- The Commission created Minimum Gas Service Standards-meter reads, billing language and fonts, call answer times, shutoffs, monetary deposits, disconnects and other operational issues



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Regulator in a Competitive Environment

- The Commission created Rules for Natural Gas Competition in order to provide a level playing field
- Prices are competitive but must not be misleading- must quote prices in the same volume as the utility bills
- Deposits, disconnections, customer switching, aggregation of communities, church groups and other defined retail groups are set by rule
- Cancellation penalty is set at a maximum and “re-enrollment” is defined and standardized



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Coming Down the Pipes!

- Decoupling of utility returns so the utility is neutral to reduced sales and conservation
- Pipeline Safety Act of 2006 will require additional operator safety, qualification and investment
- Diversification of supply for the regulated customers
- Encourage investment in national pipelines and additional distribution facilities within the states
- Create, encourage and convey and message of energy conservation to consumers



USAID
FROM THE AMERICAN PEOPLE



N A R U C
National Association of Regulatory Utility Commissioners

Energy Competition in North America

Diagram 1. Energy Flow, 2004
(Quadrillion Btu)

