Can Competitive Natural Gas Supply Survive in Connecticut?

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Over ten years ago, Connecticut, like other states, embarked on opening up its natural gas markets to competition, in the hope of offering more contracting options. While residential consumers of natural gas must still buy their gas from a regulated utility, such as Eversource, CNG or SCG, industrial and commercial customers have the ability to purchase their natural gas from a competitive supplier of their choosing, at least for the time being. According to the competitive suppliers, however, the window may be closing on Connecticut's competitive gas markets.

Competitive natural gas supply works much the same as competitive electric supply in Connecticut. Essentially, a business owner selects the company that will sell it the natural gas, much as businesses and residential consumers select what company will sell them their electricity. The regulated utilities charge a fee to transport that gas to the business, much as electric utilities charge to distribute the electricity to customers.

With both electricity and natural gas, customers may choose to have both the supply and distribution provided by the utilities. Because the utilities are heavily regulated, however, they are restricted as to how they can purchase such resources, and they may not always be able to get the best price for consumers. Allowing competitive suppliers allows for the potential of lower prices and more contracting options.

Unlike the electricity market, however, the natural gas distribution system in Connecticut is currently constrained, meaning that during periods of heavy usage (such as cold winters), there is limited capacity available on the gas pipelines. The Public Utilities Regulatory Authority (PURA) addressed this issue ten years ago when it provided a limit on pipeline capacity of 25% to the competitive suppliers, so that the utilities would have sufficient resources for reliability with the remaining 75%.

Recently, the competitive suppliers alerted PURA that this method of allocating capacity is having the unintended consequence of driving up competitive prices due to the increased costs of scarce capacity. Between the scarcity of capacity and the cost allocations for capacity charged by the utilities, the suppliers have informed PURA that unless changes are made to the program, the competitive suppliers will no longer be able to cost effectively supply gas to their customers and take on the risks of the market. The suppliers' suggested solution is for Connecticut to follow jurisdictions in surrounding states and allow for the capacity needed for each customer to follow that customer regardless of what supplier the customer uses. In other words, rather than having an artificial capacity allocation between competitive suppliers and regulated utilities, the suppliers' proposal will allow the capacity resource to serve the customer that is purchasing the gas, regardless of where that customer has purchased the gas from.

The utilities have countered that allowing such a "capacity follows the customer" allocation may cause unreliability in the gas distribution system, since the utilities will never be truly certain how the capacity resource will be allocated at any given time. The utilities have gone on to argue to PURA that they should also be allowed to enter into the contracted supplier market in addition to the distribution market, while passing the cost of risk onto the customers. Suppliers argue that any reliability risk is dealt with appropriately by every other state with competitive choice, and only Connecticut operates in this manner.

This matter is currently before the PURA, and it is hoped that the PURA will issue a decision before customers need to be signed up for the next heating season. Only time will tell if Connecticut's experiment with competitive natural gas supplies will be allowed to continue, or whether the capacity constraints that Connecticut faces will suffocate the competitive suppliers.

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