

Consumers Union

1300 Guadalupe, Suite 100, Austin, Texas 78701

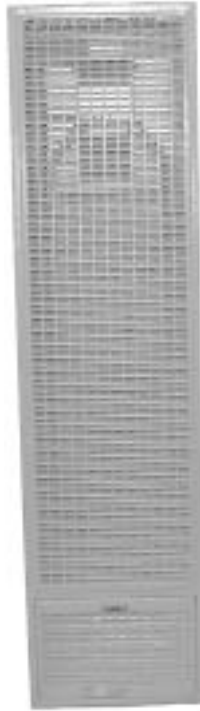
Tim Morstad 477-4431 x128
tmorstad@consumer.org

Industry-friendly gas utility regulation and cold winters cost Texas consumers a bundle. This state sets gas utility rates and service rules through a patchwork of local and state agencies. The result is a mishmash of customer service standards, dozens of gas utility rate cases, and no overall policy that ensures consumers can heat their homes affordably.

A significant portion of a consumer's gas utility bill is unregulated, and consumers are completely at the mercy of the utility when it comes to these costs. Utilities claim they are simply passing along the sometimes volatile price of natural gas. But there are different ways that utilities can purchase gas, some much more risky and costly to consumers than others. Utilities have no incentive to try to get the best deals on gas because there's no one at the state level looking out to make sure the purchases benefit consumers.

There is also a critical link between natural gas rates and electricity rates in this state. The deregulation of the electric industry in Texas was largely premised on the expectation that natural gas-fired generating plants would drive down the price of electricity. However, the recent rise in natural gas prices turned the promised savings into rate increases and higher monthly energy bills for consumers.

As electric and gas utility companies converge (through mergers, acquisitions and partnerships), Texas remains the only state that does not place regulation of electric and gas service under a single agency. The two largest electric utilities in Texas own the gas distribution company in their own electric utility service territories as well as gas pipelines. Consumers in



Changes in the Regulation of Gas Utilities

The mishmash of state and local gas regulation results in dozens of gas rate cases but no statewide policy to ensure that Texans can heat their homes affordably. Texas law should be updated to help consumers weather the volatile gas market and provide stronger consumer protections.

much of the state could see their gas and electric bills combined, yet oversight for these services is split between two agencies: the Railroad Commission and the Public Utility Commission.

RECOMMENDATIONS

- In the long term, the consolidation in the energy industry necessitates consolidation of the regulatory structure by transferring regulation of gas utilities from the Railroad Commission (RRC) to the Public Utility Commission (PUC). Regulation of gas utilities should be transferred to the PUC because the RRC lacks a mission and culture of consumer protection. Consolidation
- In the short term, require system-wide rate setting for gas utility service so rates do not differ for customers of the same gas utility depending on which city they live in, or whether the customer lives in a city or an unincorporated area.
- Require utilities to engage in prudent and least cost gas purchasing practices and penalize those that don't.
- Allow the Office of Public Utility Counsel to participate in Railroad Commission cases and rulemakings

representing residential consumers.

- Update the law by setting strong customer service standards that apply statewide.
- Adopt in statute a program to assist lower income households with gas utility bills.
- Monitor market power in the natural gas industry, which can negatively affect the price and supply of electricity in the deregulated electricity market.

In Short

System wide rate setting for gas utilities will ensure that rates are the same for customers of the same gas company regardless of the city (or unincorporated area) in which they live. Stronger statewide consumer protection standards and a program to assist low income families will safeguard vulnerable customers.