

Gas South uses alliances, special payment plans to boost retail base in Georgia

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By Mark Hand

Gas South LLC's growth in Georgia's competitive retail natural gas market has paralleled the dramatic decline in wholesale gas prices since late last summer.

"We were very active as prices started falling in the natural gas market and were able to provide some compelling offers to customers of some of the other natural gas marketers," Gas South CEO Kevin Greiner said in an interview with SNL Energy. "We had a lot of those switch over to us."

Gas South has grown by 60,000 customers year over year, with most of that increase occurring since July 2008, a period in which wholesale natural gas prices have dropped from above \$13/MMBtu to below \$4/MMBtu. The company now serves 225,000 customers, making it the third-largest retail gas marketer in Georgia behind Georgia Natural Gas Co. and SCANA Energy.

During that period, Gas South has actively used direct mail and other types of direct marketing that "have certainly enabled us to take share," Greiner said.

Much of the growth spurt also can be attributed to timing — "being able to get your offers out at times when customers are looking for the possibility of switching natural gas providers, and then possessing really good sales channels for being able to present yourself as a good option when customers are moving into a new residence," Greiner said.

Gas South has made significant investments in building its brand, including sponsorship of sports teams in the Atlanta metropolitan area. "I think we've just become more recognized over the three years we've been in the business in Georgia," he said.

The company, a for-profit affiliate of Cobb Electric Membership Corp., entered Georgia's deregulated retail supply market through its acquisition of almost all of the assets of Southern Co. unit Southern Co. Gas LLC in 2006 for a purchase price of about \$127 million. As part of the deal, Gas South inherited more than 150,000 customer accounts.

Gas South has entered into alliance partnerships with electric cooperatives and municipal electric utilities in Georgia. Customers of those organizations get discounted rates if they choose Gas South as their natural gas supplier.

In May, Gas South formed a strategic alliance with the city of Acworth, Ga., that makes residents and businesses in the city eligible for preferred gas rates, including a special discount of 2 cents per therm off all of the company's standard rates. Acworth, in northern Cobb County, Ga., operates an electric utility that serves more than 6,000 customers.

During the past year, Gas South also boosted its customer numbers through the September 2008 acquisition of Vectren Source's retail gas operations in Georgia, which came with 17,000 accounts. Vectren Source is a retail marketing subsidiary of Vectren Corp. The Vectren

deal is the only acquisition that Gas South has completed since entering the Georgia market through the deal for Southern Co. Gas' assets in January 2006.

"I'd expect to see some continued consolidation [in the Georgia retail gas market], as scale is really needed to operate profitably in the market here," Greiner said.

Georgia's unbundling experiment

Georgia's unbundled retail gas market has faced its ups and down since the passage of the Natural Gas Competition and Regulation Act in 1997. Georgia is the only state in the country with a completely unbundled retail gas market.

With the passage of the legislation, gas consumers no longer purchase their gas supply from AGL Resources Inc. subsidiary Atlanta Gas Light Co., although AGL still provides distribution service.

Through the years, state lawmakers, frustrated with the complexity of the system and its inability to lead to lower prices for consumers, have introduced legislation to reregulate the retail gas market.

The Atlanta Journal-Constitution, the state's most prominent newspaper, published an editorial in January 2006 stating that "Georgia's natural gas deregulation has been a great disappointment." The law "has not lowered gas prices through competition, nor has it empowered consumers through choice. It merely added unnecessary levels of complexity to what ought to be a pretty straightforward billing and delivery system," the newspaper wrote.

While legislative efforts to go back to a regulated supply environment have failed, the Georgia Public Service Commission has tweaked the system in various ways to make it more consumer-friendly.

In July 2006, the PSC approved a \$1.2 million customer education plan that calls for AGL to collaborate with the PSC, the state Consumers' Utility Counsel, gas marketers and the University of Georgia Cooperative Extension Service on developing a program designed to help customers understand how the state's unbundled natural gas market works.

Two years later, the PSC approved a rule aimed at ensuring that natural gas customers who live in apartments are not prevented from switching gas marketers. The revised rule places restrictions and notification requirements on gas marketers' ability to trade customers, clarifies the administrative procedures for certifying marketers, and expands the financial information that each marketer must file with the PSC on a quarterly basis.

Calls for reregulation of the retail market have died down, perhaps partially related to the dramatic decline in gas commodity prices over the past 10 months. The Georgia gas market is functioning "pretty well these days," Greiner said.

"I think the market has gotten increasingly competitive. That's a trend I'd expect will probably continue," he said. "Gas prices have fallen so much and the availability of attractive rates in certainly out there for consumers. ... Prices are low on a historical basis right now. Certainly, that reduces the amount of customer service issues that anybody experiences in the market."

Simplifying natural gas

Gas South does not focus only on signing up new customers at the expense of existing customers, according to Greiner. "We make sure our longtime customers are well taken care of and feel like they're getting a great value from us," he said.

In 2008, the Georgia PSC investigated Georgia Natural Gas and SCANA over claims that the two marketers had offered new gas plans to new customers, but did not offer them to existing ones, thereby violating state law and PSC rules. In response to the investigation, Georgia Natural Gas accepted a \$2.5 million settlement in March 2008. Under the terms of the settlement, the first 100,000 Georgia Natural Gas customers who switched to another plan between Dec. 1, 2006, and July 31, 2007, were offered \$25 credit.

The PSC later approved a \$1.25 million settlement that resolved charges against SCANA. As with the Georgia Natural Gas order, the SCANA settlement required that the marketer give customers affected by the company's marketing practices a \$25 credit if they switched to another SCANA natural gas plan between March 1, 2007, and Oct. 31, 2008.

Gas South has only one variable rate plan and fixed rate plans that span anywhere from six to 18 months, according to Greiner.

The company is focused on making buying gas from a third-party supplier as simple as possible, "not over-complicating it and certainly not wanting to require customers to wade through a plethora of different rate plans," Greiner said. "We try to make it as simple as possible for customers to find the rate plan that's right for them and to ensure that they get very good value from their relationship with us."

All of Gas South's call center representatives and customer service officials are located in Georgia. "Certainly, we try to emphasize that we're a hometown brand," Greiner said. "All of our employees are located in Georgia. We think that matters in the retail energy business."

Retail gas customers in Georgia get one bill from their marketers. The bill includes all charges, including AGL's distribution charges. Marketers are responsible for collecting payments for all charges and remitting to AGL what it is owed.

"We the marketers have the exposure on the bad debt side," Greiner said. "So if a customer doesn't pay us, not only don't we get paid for the gas that the customer used, but we are still responsible for the regulated charges due to AGL."

Targeting credit-challenged customers

Gas South also has made a bid for credit-challenged customers through its Pay-As-You-Go program, which it launched in May 2008. Over the past year, more than 10,000 customers have enrolled in the program.

Gas South developed the Pay-As-You-Go concept as a key component of its bid in 2007 to become the state's regulated provider of last resort. That year, the PSC ended up selecting SCANA as the regulated supplier, and then voted earlier this year to retain SCANA for another two-year term that ends in 2011.

The regulated provider serves about 100,000 low-income and credit-challenged consumers throughout the state. The system serves as a backstop service for consumers who cannot qualify for service from other natural gas marketers, and it offers subsidized rates to low-income residents.

"Unfortunately, the PSC didn't award that business to us," Greiner said. "But we decided to make it available on a voluntary basis so that we could actually compete with the regulated provider to better serve that under-served segment of the population here."

Each Pay-As-You-Go bill includes projected charges for the next 30 days. Pay-As-You-Go customers must pay their bills within 25 days of the bill date, subject to PSC regulatory restrictions. While that is an accelerated disconnection time frame, Pay-As-You-Go customers have slightly more time to pay their bills than regulated-provider customers served by SCANA.

Pay-As-You-Go customers are not required to put a deposit down for service and are offered a variable rate that changes each month based on market conditions. In May, Gas South also began offering a six-month fixed rate to those customers.

After one year in the program, Pay-As-You-Go customers with good payment histories are given the option of transferring to one of the company's other rate plans, which tend to be priced lower and come with a lower monthly service charge.

"We felt that Pay-As-You-Go would provide us with a mechanism to reduce our bad debt exposure associated with serving credit-challenged consumers, and then pass back some of those savings in the form of lower rates, lower service charges and no deposit requirements," Greiner said. *i*