# Office of Retail Market Development Annual Report on the Development of Natural Gas Markets in Illinois

Submitted pursuant to Section 19-130 of the
Illinois Public Utilities Act

*Office of Retail Market Development*
*Illinois Commerce Commission*
*October 2021*

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STATE OF ILLINOIS

# ILLINOIS COMMERCE COMMISSION

October 27, 2021

The Honorable JB Pritzker
Governor

The Honorable Members of the Illinois General Assembly

The Honorable Members of the Illinois Commerce Commission

Please find enclosed the ICC's Office of Retail Market Development's Annual Report on the Development of Natural Gas Markets. This report is submitted in compliance with Section 19-130 of the Illinois Public Utilities Act [220 ILCS 5/19-130]. Section 19-130 requires the Director of the Office of Retail Market Development to prepare an analysis of the status and development of the retail natural gas market in the State of Illinois.

Sincerely,

Tanya Capellan

Tanya Capellan
Director, Office of Retail Market Development

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# I. Statement of Purpose

Section 19-130 of the Illinois Public Utilities Act states that

> *"The Commission's Office of Retail Market Development shall prepare an annual report regarding the development of competitive retail natural gas markets in Illinois. The Office shall monitor existing competitive conditions in Illinois, identify barriers to retail competition for all customer classes, and actively explore and propose to the Commission and to the General Assembly solutions to overcome identified barriers. Solutions proposed by the Office to promote retail competition must also promote safe, reliable, and affordable natural gas service.*
>
> *On or before October 31*[1] *of each year, the Director shall submit a report to the Commission, the General Assembly, and the Governor, that includes, at a minimum, the following information:*
>
> > *(1) an analysis of the status and development of the retail natural gas market in the State of Illinois; and*
> >
> > *(2) a discussion of any identified barriers to the development of competitive retail natural gas markets in Illinois and proposed solutions to overcome identified barriers; and*
> >
> > *(3) any other information the Office considers significant in assessing the development of natural gas markets in the State of Illinois.*
> >
> > *Beginning in 2021, the report shall also include the information submitted to the Commission pursuant to paragraph (6) of subsection (b) of Section 19-115."*

[1] The reporting date was changed from October 1 to October 31 by PA 102-0459, effective August 20, 2021.

# II. Introduction

Traditional gas utility ***sales service*** is the sale of natural gas supply to retail customers at rates regulated by the Illinois Commerce Commission (ICC). The rates paid by sales service customers are separated into two parts:

- **Delivery:** this component recovers the cost to distribute gas, including the cost of utility-owned storage facilities, through rates that vary by customer class.
- **Gas commodity:** this component of sales service is regulated by the Commission to ensure that customers pay only for gas that is prudently purchased. Typically, the price for gas commodity fluctuates monthly, but it does not vary by customer class.

Gas ***transportation service*** allows ***alternative gas suppliers (AGS)*** to sell competitively priced natural gas commodity to retail customers. It is believed that the wholesale commodity market is competitive, but the delivery function is a natural monopoly. Therefore, by unbundling the commodity from its delivery, retail customers can get direct access to the wholesale market and potentially:

- A wider array of services
- Customized pricing, terms, and conditions of service to individual customers or groups of customers than is possible with sales service
- Lower prices

The first transportation tariffs simply removed the utility's gas supply charge from the transportation customer's bill, with limited or no access to utility storage assets. More recently, transportation service has become more sophisticated. It offers customers a number of alternatives to traditional utility sales service, including allocations of utility storage and flexible delivery and storage withdrawal terms.

This report aims to provide an overview of the current state of the market including active gas supplier activity and customer switching trends. This study is divided into two main customer markets:

1. **Large Volume Transportation (LVT):** this segment represents most of the gas transportation volume as these are the large volume industrial and commercial customers in the Nicor Gas, Peoples Gas, North Shore Gas, and Ameren Illinois service territories.
2. **Small Volume Transportation (SVT):** both small commercial and residential customer segments are included in this market, currently served by the three utilities in northern Illinois: Nicor Gas, Peoples Gas, and North Shore Gas. SVT customers fall into two categories and are defined statutorily as:
    a. **Small commercial:** a non-residential customer who consumes 5,000 or fewer therms annually; or
    b. **Residential:** a customer who receives gas utility service for household purposes distributed to a dwelling of two or fewer units which is billed under a residential rate or gas utility service for household purposes distributed to a dwelling unit or units which is billed under a residential rate and is registered by a separate meter for each dwelling unit.

The data has been analyzed to identify trends and inform recommendations for 2022 aimed at supporting the development of competitive retail natural gas markets.

# III. Executive Summary

## A. Market Participation

Statewide, the number of alternative gas suppliers (AGS) certified by the ICC to serve retail customers has remained constant. In general, the number of customers choosing to receive their gas supply from an AGS and the amount of gas supplied to the market is decreasing; AGS are supplying less natural gas to the market than last year. Table 1 summarizes the quantity of annual AGS customers and their yearly usage by utility territory and market.

**Table 1: SUMMARY OF MARKET INDICATORS (QUANTITY)**

| | Quantity | | Trend | Percent Change |
|---|---|---|---|---|
| | 2019 | 2020 | | |
| **Quantity of Customers** | **406,199** | **345,716** | ↓ | **-14.9%** |
| **Nicor Gas** | 273,886 | 238,008 | ↓ | -13.1% |
| LVT | 15,177 | 13,517 | ↓ | -10.9% |
| SVT | 258,709 | 224,491 | ↓ | -13.2% |
| **Peoples Gas** | 103,836 | 80,250 | ↓ | -22.7% |
| LVT | 7,786 | 7,768 | ↓ | -0.2% |
| SVT | 96,050 | 72,482 | ↓ | -24.5% |
| **North Shore Gas** | 19,882 | 18,525 | ↓ | -6.8% |
| LVT | 1,777 | 3,362 | ↑ | 89.2% |
| SVT | 18,105 | 15,163 | ↓ | -16.2% |
| **Ameren** | 8,595 | 8,933 | ↑ | 3.9% |
| LVT | 8,595 | 8,933 | ↑ | 3.9% |
| **Usage Provided by AGS** | **4,292,715,081** | **4,016,853,008** | ↓ | **-6.4%** |
| **Nicor Gas** | 2,353,598,362 | 2,175,121,722 | ↓ | -7.6% |
| LVT | 1,837,585,171 | 1,732,652,334 | ↓ | -5.7% |
| SVT | 516,013,191 | 442,469,388 | ↓ | -14.3% |
| **Peoples Gas** | 794,472,378 | 723,326,342 | ↓ | -9.0% |
| LVT | 648,180,767 | 599,601,070 | ↓ | -7.5% |
| SVT | 146,291,611 | 123,725,273 | ↓ | -15.4% |
| **North Shore Gas** | 149,126,956 | 134,768,689 | ↓ | -9.6% |
| LVT | 117,235,243 | 107,168,951 | ↓ | -8.6% |
| SVT | 31,891,713 | 27,599,738 | ↓ | -13.5% |
| **Ameren** | 995,517,385 | 983,636,255 | ↓ | -1.2% |
| LVT | 995,517,385 | 983,636,255 | ↓ | -1.2% |

## 2020 Snapshot

**33,580**
**LVT** customers on AGS supply, compared to 33,335 in 2019.

**312,136**
**SVT** customer on AGS supply, compared to 372,864 in 2019.

**47%**
**of natural gas** in the state supplied by AGS, compared to 46% in 2019.

**55 AGS**
**certified** in the state, which is the same as last year.

**86 AGS**
**actively**[2] serving customer in the state, compared to 83 last year.

[2] In previous years, the number of actively serving AGS was based on those serving customers. This year, the number of active AGS was changed to be based on those serving therms.

The percentages in Table 2 compare:

1. The total number of customers on AGS supply to the total number of customers in the market.
2. The total usage provided by AGS as a percent of the total usage provided to the market.

**Table 2: SUMMARY OF MARKET INDICATORS (PERCENT)**

| | Percent of Total Market | | Trend | Percent Change |
|---|---|---|---|---|
| | 2019 | 2020 | | |
| **Quantity of Customers** | **12%** | **10%** | **↓** | **-1.8%** |
| **Nicor Gas** | 12% | 11% | ↓ | -1.6% |
| LVT | 8% | 7% | ↓ | -1.0% |
| SVT | 12% | 10% | ↓ | -2.0% |
| **Peoples Gas** | 11% | 8% | ↓ | -2.6% |
| LVT | 10% | 10% | - | 0.0% |
| SVT | 11% | 8% | ↓ | -3.0% |
| **North Shore Gas** | 11% | 10% | ↓ | -0.8% |
| LVT | 13% | 23% | ↑ | 14.0% |
| SVT | 11% | 9% | ↓ | -3.4% |
| **Ameren** | 12% | 12% | ↑ | 0.5% |
| LVT | 12% | 12% | ↑ | 0.5% |
| **Usage Provided by AGS** | **46%** | **47%** | **↑** | **0.7%** |
| **Nicor Gas** | 46% | 46% | ↑ | 0.3% |
| LVT | 67% | 69% | ↑ | 2.0% |
| SVT | 10% | 9% | ↓ | -1.0% |
| **Peoples Gas** | 32% | 32% | ↓ | -0.1% |
| LVT | 64% | 64% | - | 0.0% |
| SVT | 10% | 9% | ↓ | -1.0% |
| **North Shore Gas** | 31% | 31% | ↑ | 0.4% |
| LVT | 68% | 69% | ↑ | 1.0% |
| SVT | 10% | 10% | - | 0.0% |
| **Ameren** | 84% | 86% | ↑ | 2.1% |
| LVT | 84% | 86% | ↑ | 2.1% |

## B. Market Competitiveness

The competitiveness of the market is also an important indicator of the current state of the gas market. The Herfindahl-Hirschmann Index (HHI) is a common indicator to measure competition among firms in a defined market. For an in-depth explanation of HHI values, please see page 11. HHI values consider the market share of each firm to rank a market on the following scale, with an HHI of zero being a perfectly competitive market (lots of firms competing) and an HHI of 10,000 being a monopoly (one firm dominates the market):

| **0** | | **100** | | **1,500** | | **2,500** | | **10,000** |
|---|---|---|---|---|---|---|---|---|
| | Highly Competitive | | Competitive / Unconcentrated | | Moderate Concentration | | High Concentration | |
| **Perfect Competition** | | | | | | | | **Monopoly** |

Overall, the residential gas supply markets in the Nicor Gas, Peoples Gas, and North Shore Gas territories are becoming more competitive. The small non-residential market is becoming less competitive in the Nicor Gas territory, while in the North Shore Gas and Peoples Gas territory, the small non-residential market is more competitive than last year. The LVT market has also become more competitive for all territories except for Peoples Gas, which has become more concentrated. Table 3 summarizes the market competitiveness in each utility territory with HHI values broken out by LVT, SVT - Non-Residential and SVT - Residential. Note: An increasing trend in HHI values indicates that the market is becoming less competitive.

**Table 3: SUMMARY OF MARKET COMPETITIVENESS**

| | HHI Value 2019 | HHI Value 2020 | Current Designation | Trend | Percent Change |
|---|---|---|---|---|---|
| **Concentration of AGS Market** | | | | | |
| **Nicor Gas** | | | | | |
| LVT | 1,371 | 1,365 | Competitive | ↓ | -0.4% |
| SVT - Non-Residential | 1,314 | 1,372 | Competitive | ↑ | 4.4% |
| SVT - Residential | 1,080 | 1,031 | Competitive | ↓ | -4.5% |
| **Peoples Gas** | | | | | |
| LVT | 2,599 | 2,679 | High Concentration | ↑ | 3.1% |
| SVT - Non-Residential | 1,386 | 1,241 | Competitive | ↓ | -10.5% |
| SVT - Residential | 1,049 | 1,007 | Competitive | ↓ | -4.0% |
| **North Shore Gas** | | | | | |
| LVT | 3,606 | 3,508 | High Concentration | ↓ | -2.7% |
| SVT - Non-Residential | 2,015 | 1,839 | Moderate Concentration | ↓ | -8.7% |
| SVT - Residential | 1,112 | 1,101 | Competitive | ↓ | -1.0% |
| **Ameren** | | | | | |
| LVT | 1,326 | 1,254 | Competitive | ↓ | -5.5% |

## C. Consumer Offers

Consumer resources are available on the ICC website and, as of August 2021, there were a total of 61 offers. North Shore Gas had 20 offers, Peoples Gas had 19 different residential offers posted, and Nicor Gas had 22 different residential offers posted. A majority of these offers have fixed rates, typically for a year.

# IV. General Market Activity

## A. AGS Requirements

Certification from the ICC is not required to serve as an LVT supplier. The Public Utilities Act states that rules pertaining to AGS licenses “shall apply only to alternative gas suppliers serving or seeking to serve residential or small commercial customers.” AGS that wish to provide services to the SVT market have several requirements they must fulfill prior to participation which include:

- **Certification:** The AGS must obtain a certificate of service authority from the ICC,
- **Registration:** Suppliers must also register with the gas utility,
- **Testing:** Technical testing to be completed before offering retail natural gas service in Illinois, and
- **Meet standards:** All AGS companies must adhere to requirements as described in the Illinois Public Utilities Act.

## B. Certified and Active AGS

Statewide, there are currently 55 AGS companies that have obtained ICC certification pursuant to Section 19-110. This is stagnant from the 55 AGS companies that were also certified in 2020.

**Table 4: CERTIFIED AGS STATEWIDE**

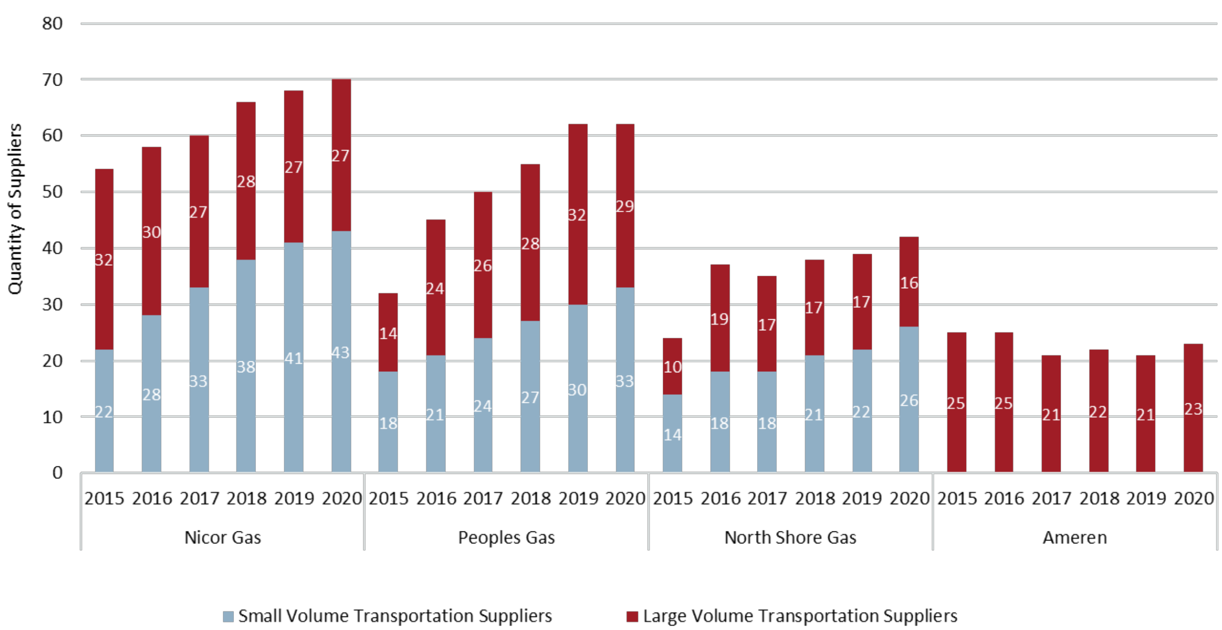
| | 2017 | 2018 | 2019 | 2020 | 2021 | Trend | Percent Change from 2020 to 2021 |
|---|---|---|---|---|---|---|---|
| **Total Quantity of Certified AGS** | 44 | 51 | 53 | 55 | 55 | - | +0% |

Table 5 and Figure 1 show the number of active AGS each year by utility territory and market served. An AGS is considered active when a utility reports the AGS has at least one customer receiving supply, even if it is only to themselves or an affiliate. The LVT gas suppliers are shown separately from the SVT suppliers in order to visualize the markets serviced by each group. Note, a supplier may be active in both the SVT and LVT markets and, as such, would be counted in both categories.

**Table 5: ACTIVE AGS BY UTILITY TERRITORY**

| | Dec 2016 | Dec 2017 | Dec 2018 | Dec 2019 | Dec 2020 | Trend | Percent Change from 2019 to 2020 |
|---|---|---|---|---|---|---|---|
| Nicor Gas Territory | | | | | | | |
| LVT market | 30 | 27 | 28 | 27 | 27 | - | 0% |
| SVT market | 28 | 33 | 38 | 41 | 43 | ↑ | 5% |
| Peoples Gas | | | | | | | |
| LVT market | 24 | 26 | 28 | 32 | 29 | ↓ | -9% |
| SVT market | 21 | 24 | 27 | 30 | 33 | ↑ | 10% |
| North Shore Gas | | | | | | | |
| LVT market | 19 | 17 | 17 | 17 | 16 | ↓ | -6% |
| SVT market | 18 | 18 | 21 | 22 | 26 | ↑ | 18% |
| Ameren Illinois Territory | | | | | | | |
| LVT market | 25 | 21 | 22 | 21 | 23 | ↑ | 10% |

**Figure 1: ACTIVE AGS BY UTILITY TERRITORY**




Overall, data this year shows increased new entry by alternative gas suppliers in the LVT market in the Ameren Illinois territory. The Peoples Gas, and the North Shore Gas territories experienced a decrease in the quantity of AGS serving the LVT market and the Nicor Gas territory stayed stagnant for the LVT market. The quantity of AGS serving the SVT markets increased for all utility territories.

# V. Large Volume Transportation (LVT) Market

Local Distribution Companies (LDC) tariffs, along with interstate FERC-approved pipeline tariffs, create the rules and structure needed to establish competitive retail supply markets for commercial and industrial customers. The Commission has been approving unbundled gas transportation tariffs filed by Illinois LDC utilities for over four decades. That process continues today.

To recoup their expenses, an LDC may charge back the costs they incur for transportation services. In the early stages of transportation service in Illinois, rate design amounted to deducting the Purchased Gas Adjustment (PGA) price from transported volumes. When transportation customers consumed LDC-supplied gas, they paid the regular PGA or bundled rate. Transportation tariffs have become more sophisticated, since utilities now supply storage services to transportation customers while penalizing transporters for deviating from planned deliveries. When customers' gas usage differs from the level contracted for, various penalty charges or above-market rates may apply. The penalty charges are designed to prevent large-scale imbalances above the level the LDC is prepared to accommodate as specified in the tariff.

There are many gas suppliers and marketers that can meet the needs of retail customers who choose to transport their own gas rather than purchasing gas directly from their LDC under bundled tariffs.

In 2020, there were 51 active LVT suppliers in the Nicor Gas, Peoples Gas, North Shore Gas, and Ameren Illinois territories. These suppliers **served more than 33,000** Illinois large commercial and industrial customers and provided **72%** of the market's supply.

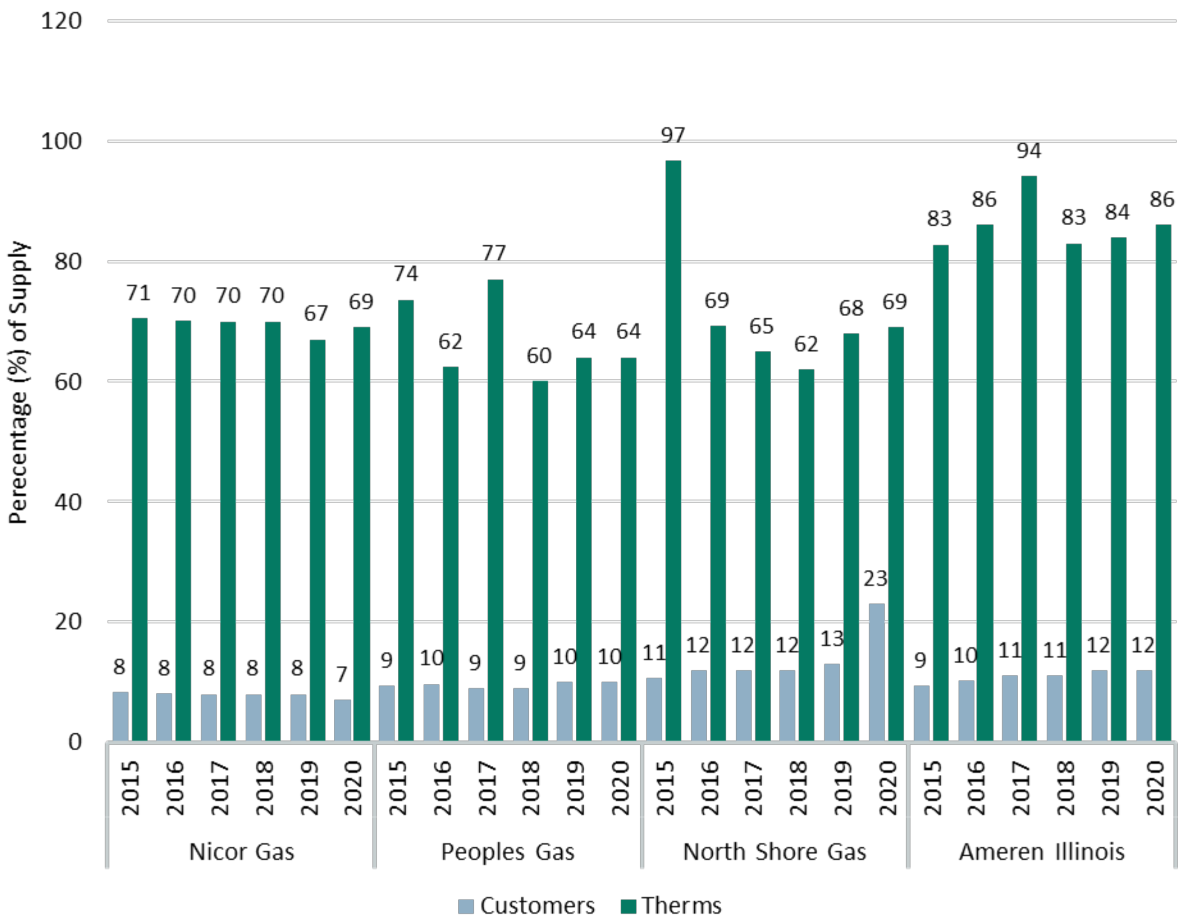
LVT market activity will be captured by looking at two different indicators:

1. Yearly AGS-provided usage of non-residential LVT customers for each of the four utility areas
2. The competitiveness of each LVT market

## A. LVT Customer Switching

For the purposes of this report, gas utilities provided data on each LVT supplier for the 2020 calendar year. Details depicted below show activity in terms of number of customers switched and related gas usage in therms over the last six years.

**Figure 2:** **COMPETITIVE SUPPLY PERCENTAGES (LARGE VOLUME TRANSPORTATION MARKET)**




The graph above shows one thing very clearly among all four utility areas: a small percentage of the large customers consume the majority of natural gas for that class of customers. As a result, suppliers only need to contract with a small number of customers to capture a significant portion of the market. Depending on the utility area, in 2020 gas suppliers provided service to 7-23% of the large volume customers while providing 64-86% of the total therms consumed by all large volume customers.

Nicor Gas saw a slight decrease and North Shore Gas saw a large increase compared to last year in the percentage of customers served by a supplier. Ameren Illinois and Peoples Gas stayed stagnant from last year to this year in terms of customers switching. Peoples Gas also stayed stagnant in the amount of therms supplied. All other utility territories saw an increase compared to last year in the amount of therms each of them supplied.

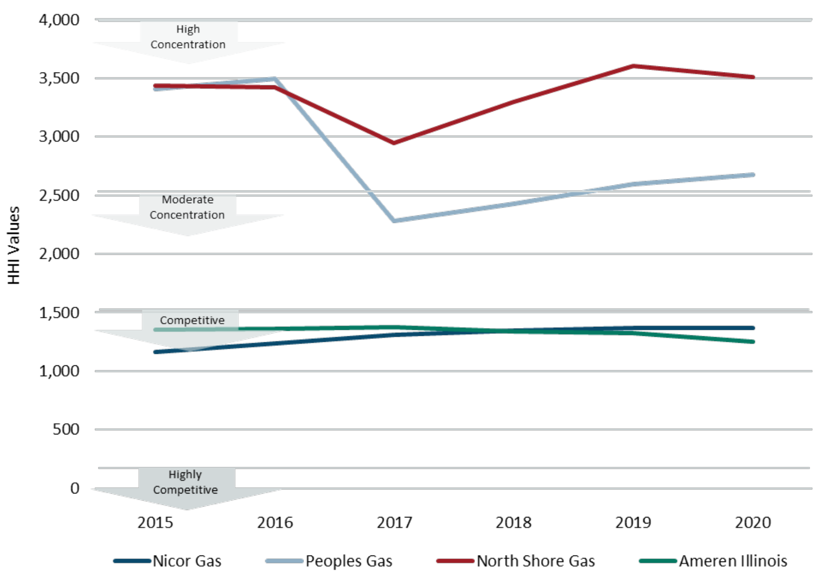
## B. Market Concentration

Similar to prior annual reports, this report includes an analysis of non-residential market competitiveness using the Herfindahl-Hirschmann Index (HHI), which is a common indicator to measure competition among firms in a defined market. This analysis ranks each market on a scale of perfectly competitive (HHI of zero) to monopoly (HHI of 10,000). In order to estimate market share, the share of natural gas usage provided by an AGS was used instead of the share of customers served by individual AGS. Either approach would be informative but the amount of therms supplied might be more closely related to the financial success of an AGS than the number of customers served.

Note that the numbers below reflect only the segment of the LVT market that has already switched to a competitive supplier. In other words, this analysis does not include customers on utility sales service.

While it is unreasonable to assume that all LVT customers are considered to be part of the same market, the overall HHI values shown here allow us to compare the relative market concentration among the utility areas and display the trend in market concentration from 2015 to 2020.

**Figure 3: HHI VALUES (LARGE VOLUME TRANSPORTATION MARKET)**




As shown, the Nicor Gas and Ameren Illinois LVT markets remain competitive—meaning more suppliers with customers. The Peoples Gas and North Shore Gas LVT markets continue to show significantly higher market concentration. The Peoples Gas market increased to highly concentrated and the North Shore Gas market remains highly concentrated.

# Herfindahl-Hirschmann Index

In order to put the market concentration values into perspective, we looked at the revised 2010 Horizontal Merger Guidelines by the Department of Justice (DOJ) and the Federal Trade Commission (FTC), which divide the spectrum of market concentration into three regions.

Generally speaking, the revised guidelines state that the DOJ and the FTC view markets as follows:

- **Less than 100** is highly competitive, meaning many similarly sized firms compete for the same customers.
- **Less than 1,500** is competitive or unconcentrated.
- **Between 1,500 and 2,500** is moderately concentrated.
- **Greater than 2,500** is highly concentrated, meaning very few firms dominate the market.
- **10,000** is the highest HHI and the market would be considered a monopoly.

# VI. Small Volume Transportation (SVT) Market

Programs for small commercial and residential customers, known as the SVT market, are an important component of Illinois retail natural gas markets. Like transportation programs for large volume customers, retail choice gives small volume customers the opportunity to purchase competitively priced natural gas commodity from an AGS outside of traditional bundled utility service. SVT programs allow suppliers to aggregate customer load and estimate their daily usage for balancing purposes instead of directly measuring daily usage with advanced meters. While Ameren Illinois does not have an SVT program, the Nicor Gas, Peoples Gas and North Shore Gas territories have been offering SVT services to residential and small commercial customers for two decades.

While the ICC does not regulate the price of gas charged by retail suppliers, it does regulate alternative gas suppliers in three ways. The ICC:

1. Approves the utility tariffs that allow for the existence of the programs including delivery requirements for system reliability
2. Issues certificates and approves qualification for alternative gas suppliers serving small commercial and residential customers
3. Enforces the provisions of the Public Utilities Act governing consumer protections for gas supply offered by alternative gas suppliers

In addition, the ICC maintains a website with residential and small commercial offers from suppliers, including a pricing comparison spreadsheet to assist customers when shopping for gas supply service.

In 2020, there were 48 active SVT suppliers[3] in the Nicor Gas, Peoples Gas, and North Shore Gas territories. These suppliers served more than **258,000** residential customers and **more than 54,000** small commercial customers.

SVT market activity will be captured by looking at three different indicators:

1. The quantity of SVT customers switching away from the utility supply service for each of the three utility areas
2. The quantity and types of residential offers posted on the ICC website
3. A market competitiveness analysis and a breakdown of residential market share among AGS

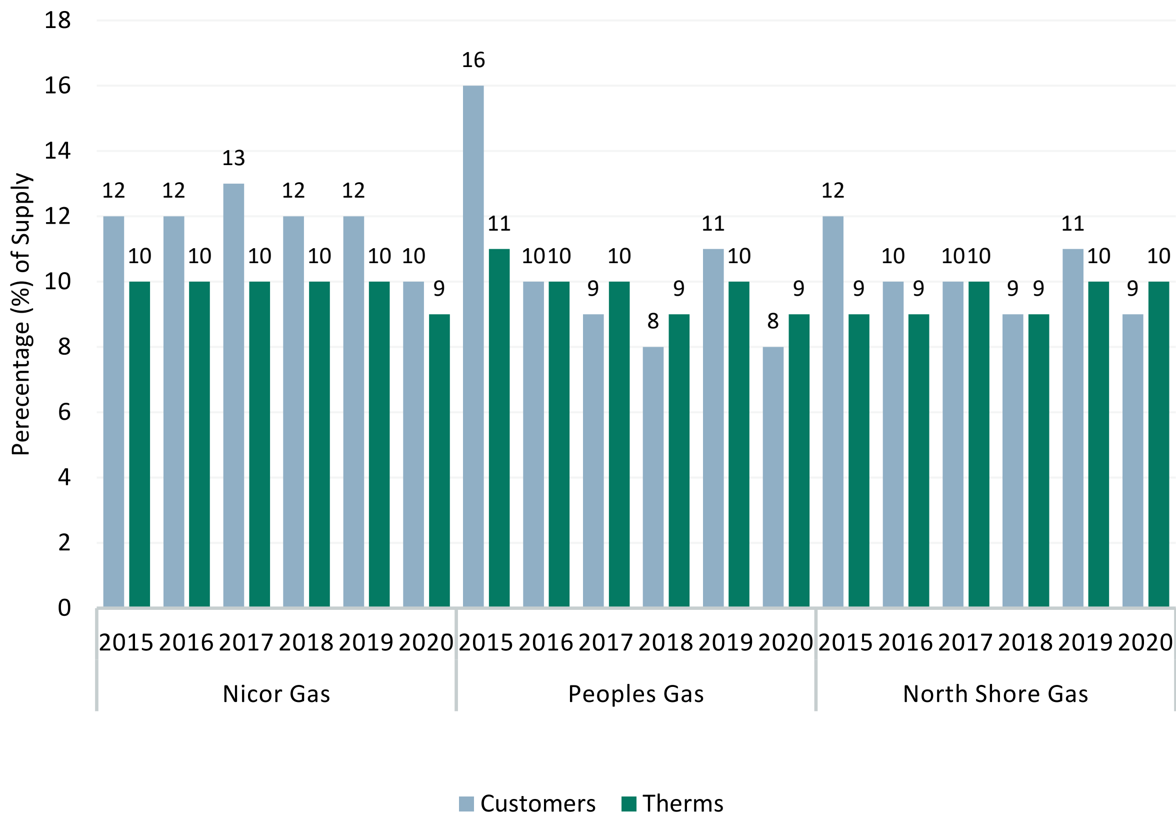
## A. SVT Customer Switching

For purposes of this report, gas utilities provided data on each SVT supplier for the 2020 calendar year. Details depicted below show activity in terms of quantity of customers switched away from the gas utility and related gas usage in therms over the last six years.

As mentioned above, SVT includes residential and small non-residential customers.

[3] In previous years, the number of active suppliers was counted based on those that served customers. This year, counting was based on the suppliers that served therms instead of those that served customers.

**Figure 4:** **COMPETITIVE SUPPLY PERCENTAGES (SMALL VOLUME TRANSPORTATION MARKET)**




In contrast to the LVT market, the SVT market percentage of switched customers is only slightly lower than the percentage of switched usage, with the exception of the Nicor territory which the percentage of switched customers is slightly higher than the percentage of switched usage. This deviates from previous years in which the percent of switched customers was almost always greater than the percentage of switched usage. There is a slight decrease in the percentage of SVT customers who have switched compared to the percentage of LVT customers who have switched, with the exception of the Nicor territory. In terms of usage, the reverse is true. The percentage of SVT usage is less than the percentage of LVT usage. This applies to all three utility areas. The Nicor Gas market continues to see the largest percentage of switched customers among the three utility areas.

## B. Residential Market

As the residential market represents the largest volume of eligible customers' accounts, this section singles out this subset of the SVT market. The following table shows the total number, as well as the percentage, of residential customers receiving supply from an AGS.

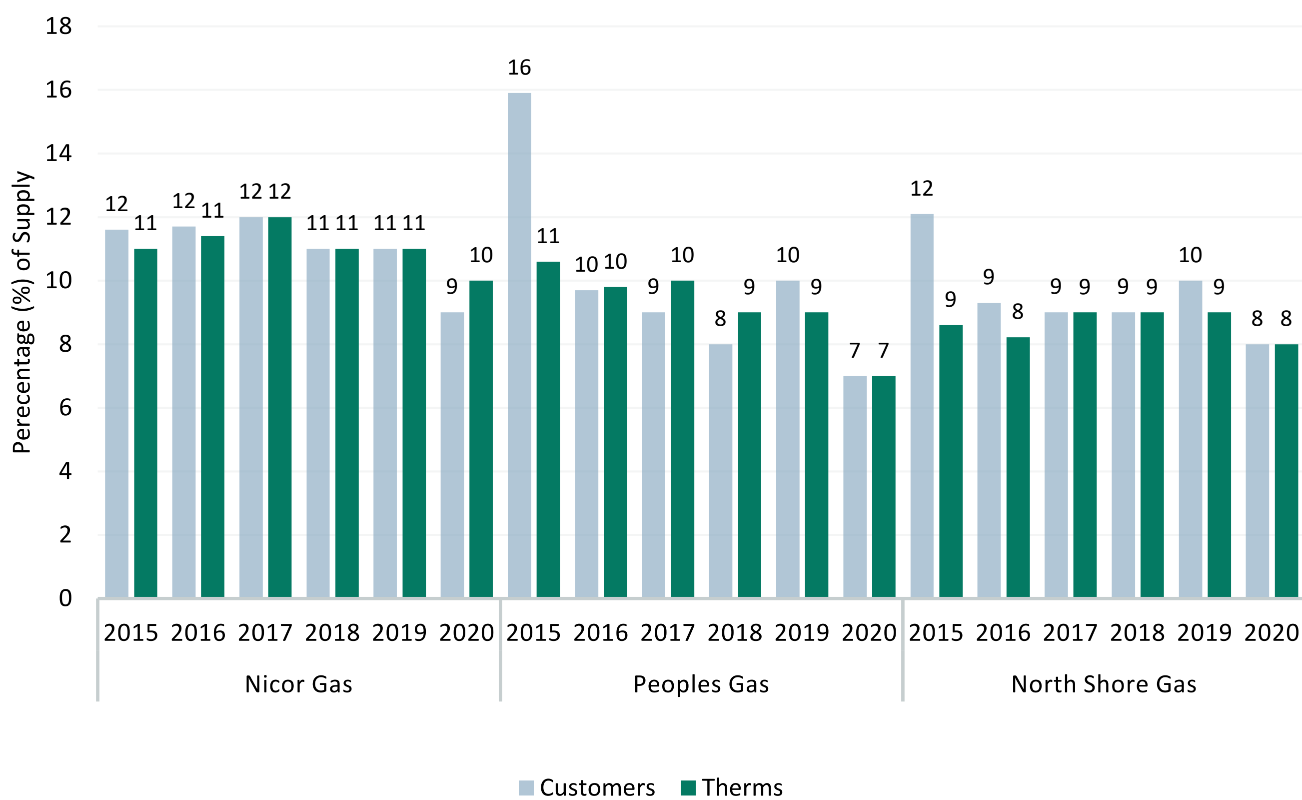
**Table 6: QUANTITY OF RESIDENTIAL CUSTOMERS ON COMPETITIVE SUPPLY**

| | December 2015 | December 2016 | December 2017 | December 2018 | December 2019 | December 2020 |
|---|---|---|---|---|---|---|
| **Nicor Gas** | **234,304** | **236,374** | **240,333** | **230,377** | **217,675** | **185,232** |
| **Peoples Gas** | **119,709** | **74,559** | **71,320** | **62,731** | **82,913** | **60,194** |
| **North Shore Gas** | **17,441** | **13,591** | **13,813** | **12,945** | **15,586** | **12,666** |
| **Total** | **371,454** | **324,524** | **325,466** | **306,053** | **316,174** | **258,092** |
| **Percent of Customers in the Utility Territory on AGS Supply** | | | | | | |
| **Nicor Gas** | **11.6%** | **11.7%** | **11.8%** | **11.3%** | **10.6%** | **9%** |
| **Peoples Gas** | **15.9%** | **9.8%** | **9.0%** | **7.8%** | **10.3%** | **7.3%** |
| **North Shore Gas** | **12.1%** | **9.3%** | **9.3%** | **8.6%** | **10.4%** | **8.4%** |

In terms of actual customer counts, the Nicor Gas territory, which has the largest pool of eligible customers, also has the most residential customers on competitive gas service. When evaluated in terms of percentage of eligible customers, all three territories experienced a decrease.

Details depicted below show activity in terms of number of residential customers switched away from the gas utility and related gas usage in therms over the last six years.

**Figure 5: COMPETITIVE SUPPLY PERCENTAGES (RESIDENTIAL MARKET)**



The graph shows that, compared to the SVT market as a whole, the percentage of switched residential customers in the Nicor Gas territory is less, while the percentage of therms is slightly more. For the Peoples Gas and the North Shore Gas territories, the residential switching percentages for both customers and therms, are slightly less compared to the whole SVT market.

## C. Commission Website

### 1. Supplier Marketing

The number of residential offers posted by the AGS companies on the ICC's website (www.icc.illinois.gov/ags/products) may also serve as an indicator of supplier activity. The inventory of suppliers and offers from the ICC website is represented in the tables below. Compared to the offers posted by suppliers in the retail electric market, the numbers of suppliers and offers are relatively small, especially considering that the posting of residential supply offers is mandatory for AGS companies but not for alternative retail electric suppliers.

When compared to the same month last year, the number of suppliers posting has slightly decreased in the Peoples Gas and the North Shore Gas territories. The number of suppliers posting has slightly increased in the Nicor territory. Additionally, all three territories have shown a decrease in volume of offers available.

**Table 7: AGS POSTING OFFERS ON THE ICC WEBSITE**

**Quantity of AGS Posting Residential Offers**

| | August 2016 | August 2017 | August 2018 | August 2019 | August 2020 | August 2021 |
|---|---|---|---|---|---|---|
| **Nicor Gas** | 9 | 10 | 10 | 10 | 9 | 10 |
| **Peoples Gas** | 9 | 11 | 10 | 11 | 9 | 7 |
| **North Shore Gas** | 7 | 9 | 9 | 10 | 9 | 8 |

**Table 8: RESIDENTIAL OFFERS POSTED ON THE ICC WEBSITE**

**Quantity of Offers**

| | August 2016 | August 2017 | August 2018 | August 2019 | August 2020 | August 2021 |
|---|---|---|---|---|---|---|
| **Nicor Gas** | 24 | 32 | 28 | 31 | 30 | 22 |
| **Peoples Gas** | 21 | 30 | 27 | 31 | 28 | 19 |
| **North Shore Gas** | 17 | 29 | 26 | 30 | 28 | 20 |

## 2. Residential Offers by Utility

The following section compares the types of offers posted within each utility territory over the last six years.

**Table 9:** **Breakdown of Offers Available to Customers on the ICC Website**

| Nicor Gas | | August 2016 | August 2017 | August 2018 | August 2019 | August 2020 | August 2021 |
|---|---|---|---|---|---|---|---|
| **Total Product Offers** | | **24** | **32** | **28** | **31** | **30** | **22** |
| **Product Type** | Fixed | 16 | 19 | 20 | 24 | 21 | 19 |
| | Variable | 5 | 5 | 4 | 4 | 5 | 1 |
| | Fixed/Variable | 1 | 1 | 1 | 1 | 2 | 0 |
| | Other | 2 | 7 | 3 | 2 | 2 | 2 |
| **Termination Fee** | Yes | 15 | 22 | 19 | 17 | 7 | 3 |
| | No | 9 | 10 | 9 | 14 | 23 | 19 |
| **Length of Term** (in Months) | < 12 | 4 | 6 | 4 | 6 | 6 | 7 |
| | 12 | 13 | 15 | 13 | 14 | 16 | 10 |
| | 13 – 23 | 2 | 3 | 2 | 2 | 1 | 0 |
| | 24 | 4 | 6 | 3 | 5 | 5 | 3 |
| | > 24 | 1 | 2 | 1 | 2 | 2 | 2 |
| | >36 | 0 | 0 | 0 | 0 | 0 | 0 |

| Peoples Gas | | August 2016 | August 2017 | August 2018 | August 2019 | August 2020 | August 2021 |
|---|---|---|---|---|---|---|---|
| **Total Product Offers** | | **21** | **30** | **27** | **31** | **28** | **19** |
| **Product Type** | Fixed | 14 | 18 | 19 | 23 | 20 | 17 |
| | Variable | 4 | 4 | 4 | 5 | 4 | 0 |
| | Fixed/Variable | 1 | 1 | 1 | 1 | 2 | 0 |
| | Other | 2 | 7 | 3 | 2 | 2 | 2 |
| **Termination Fee** | Yes | 14 | 23 | 20 | 19 | 7 | 3 |
| | No | 7 | 7 | 7 | 12 | 21 | 16 |
| **Length of Term** (in Months) | < 12 | 4 | 8 | 4 | 9 | 6 | 5 |
| | 12 | 12 | 13 | 12 | 15 | 16 | 10 |
| | 13 – 23 | 1 | 3 | 2 | 2 | 1 | 0 |
| | 24 | 3 | 4 | 2 | 4 | 3 | 2 |
| | > 24 | 1 | 2 | 1 | 3 | 2 | 2 |
| | >36 | 0 | 0 | 0 | 0 | 0 | 0 |

| North Shore Gas | | August 2016 | August 2017 | August 2018 | August 2019 | August 2020 | August 2021 |
|---|---|---|---|---|---|---|---|
| **Total Product Offers** | | **17** | **30** | **26** | **30** | **28** | **20** |
| **Product Type** | Fixed | 11 | 18 | 19 | 23 | 20 | 18 |
| | Variable | 3 | 4 | 3 | 4 | 4 | 0 |
| | Fixed/Variable | 1 | 1 | 1 | 1 | 2 | 0 |
| | Other | 2 | 7 | 3 | 2 | 2 | 2 |
| **Termination Fee** | Yes | 13 | 23 | 19 | 18 | 7 | 2 |
| | No | 4 | 7 | 7 | 12 | 21 | 18 |
| **Length of Term** (in Months) | < 12 | 3 | 8 | 4 | 9 | 6 | 5 |
| | 12 | 11 | 13 | 13 | 15 | 16 | 11 |
| | 13 – 23 | 0 | 3 | 2 | 2 | 1 | 0 |
| | 24 | 2 | 4 | 2 | 4 | 3 | 2 |
| | > 24 | 1 | 2 | 1 | 3 | 2 | 2 |
| | >36 | 0 | 0 | 0 | 0 | 0 | 0 |

In all utility areas, the quantity of offers compared to 2020 has decreased. The majority of residential offers are fixed price offers. Other options include offers with both fixed and variable components and some offers are "fixed bill" offers pursuant to which the customer pays the same amount for natural gas supply regardless of the actual monthly usage.

Term lengths on offers are largely concentrated in the one-year or less time frame. While a few other term lengths occurred ranging up to three-years, offers with terms longer than three years have disappeared altogether.

While a number of offers posted on the ICC website list a termination fee, it is important to note that termination fees are no longer permitted. The Home Energy Affordability and Transparency (HEAT) Act, effective January 1, 2020, states as follows, "residential and small commercial customers shall have a right to terminate their agreements with alternative gas suppliers at any time without any termination fees or penalties".

## D. AGS Rate Reports

Effective January 1, 2020, Public Act 101-0590 amended the Public Utilities Act ("PUA") to require all AGS to provide the Commission and the Office of the Attorney General the rates "charged to residential customers in the prior year, including each distinct rate charged and whether the rate was a fixed or variable rate, the basis for the variable rate, and any fees charged in addition to the supply rate, including monthly fees, flat fees, or other service charges" by September 30th of each year. To provide additional context, Staff requested that AGS identify the territory where each rate was charged.

The statute does not require, and AGS did not provide, a description of the types of products associated with the various rates charged or how many customers are enrolled on each rate. Given the number of non-rate benefits, such as airline miles and smart devices, that the AGS utilize in their marketing promotions, this omission often renders it difficult to accurately reflect the benefits provided to customers. Additionally, the reports do not include information about how the various rate products were marketed to customers.

Of the 55 AGS licensed to serve residential customers, the companies below failed to submit the information required:

- Agera Energy, LLC;
- Champion Energy, LLC;
- Emporia Renewable Energy Corp. (certificate removed 8/12/20);
- Entrust Energy East, Inc;
- Great American Power, LLC;
- Green Mountain Energy Company;
- HIKO Energy, LLC;
- MPower Energy NJ, LLC;
- StateWise Energy Illinois LLC; and
- Vanguard Energy Services, L.L.C.

Similar to most of the data in this report, the AGS rate information covered the period of January 1, 2020, through December 31, 2020[4]. Although some AGS charged a handful of rates during the timeframe indicated, other AGS charged over 13,000 different fixed and variable rates throughout the Nicor, North Shore, and People's Gas territories.[5] The lowest rate charged in the Nicor territory was a variable rate product of $0.123 per therm charged from January through December 2020. In the North Shore Gas and the People's Gas territory, the lowest reported rate was $0.1543 per therm and it is a fixed rate product for the time period of June through July 2020. In the Nicor territory, the highest rate charged was a variable rate of $1.489 per therm with a $6.95 additional monthly fee, which was charged between January and March of 2020. For the People's Gas territory, the highest rate charged was a variable rate of $1.379 per therm with a $4.95 additional monthly fee, which was charged for January 2020. Similarly in the North Shore Gas territory, the highest rate charged was a variable rate of $1.379 per therm with a $6.95 additional monthly fee, which was charged for March 2020. While none of these rates included additional fees, several suppliers charged separate fees in addition to the reported rates, ranging from $0.25 to $10 a month. Additionally, several AGS offer subscription or flat fee products

[4] Although the statute does not specify the 12 month period in advance of September 30, ORMD interprets the statute to mean that and in future years the September 30 report will cover the period of September 1 of the previous year to August 31 of the current year.

[5] 220 ILCS 19-130 requires ORMD to include the AGS rate information in this report. Because of the volume of different fixed, variable, and flat rates charged by a large number of AGS throughout the service territories, the rate information is presented in the aggregate in this report in order to give a broad overview of the state of the competitive market. Individual annual rate reports from any of the AGS that filed annual rate reports are available upon request.

pursuant to which customers pay the same amount throughout the life of the contract, which tends to be twelve months, regardless of usage. These products ranged from $10 to $550.82 a month.

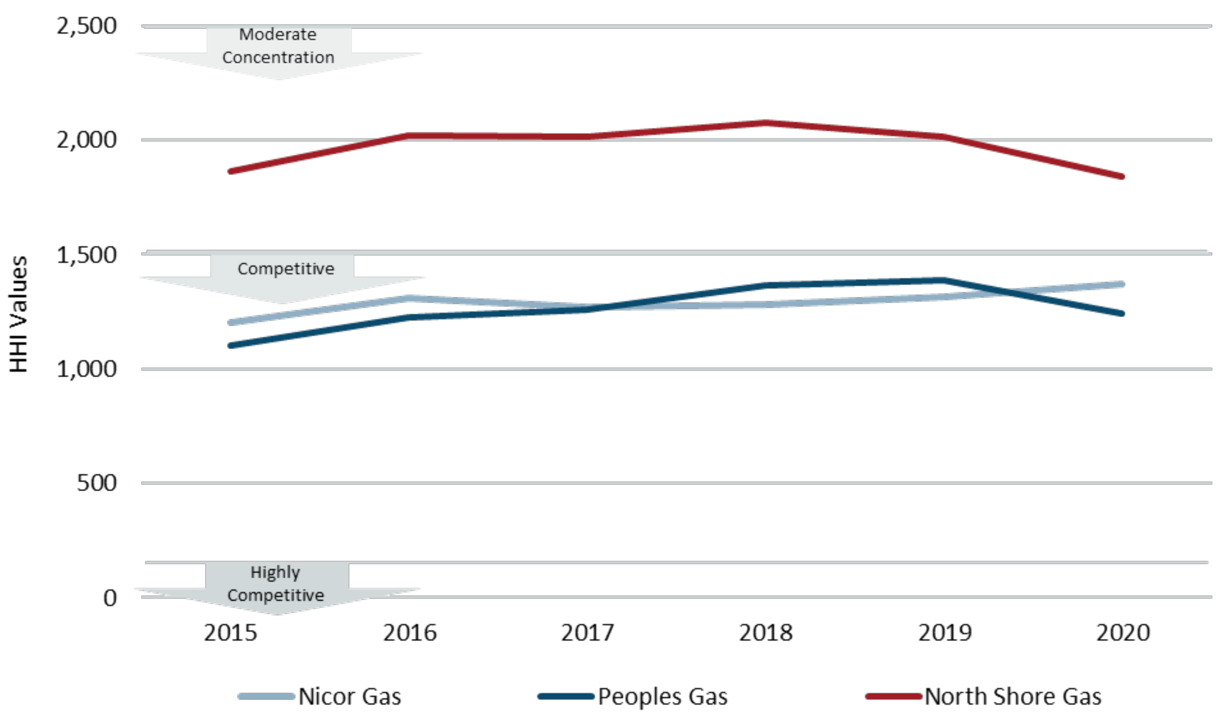
Many AGS reported charging the same variable rate for several months and even several years. Many of the fixed rates reported were only charged for two to three months at a time despite most of the fixed rate offers posted on the ICC website have a term of at least one year.

## E. Market Concentration

The market concentration for the SVT market was calculated using the same methodology as the LVT market. Market share analysis was based on the gas usage provided by each individual supplier in the SVT market rather than their share of customers. The difference between the percentage of switched customers and the percentage of switched usage is not nearly as marked as it is in the LVT market. The following figures separate the SVT market into residential and non-residential subsets in order to evaluate six-year market trends.

The first graph below illustrates that within the small non-residential portion of the SVT market, all HHI designations are remaining steady. All utilities have maintained their year-over-year concentration levels with Nicor Gas and Peoples Gas remaining competitive and North Shore Gas remaining moderately concentrated. Peoples Gas and North Shore Gas both saw slight decreased in HHI values, and Nicor Gas saw a slight increase.

**Figure 6: HHI VALUES (SMALL NON-RESIDENTIAL MARKET)**



When looking at the residential subset of the SVT market in the next figure, all three territories have remained relatively stagnant compared to last year.

Between the two SVT subset groups, the non-residential markets and residential markets are similarly competitive except for the North Shore Gas non-residential market, which is moderately concentrated.

**Figure 7: HHI VALUES (RESIDENTIAL MARKET)**

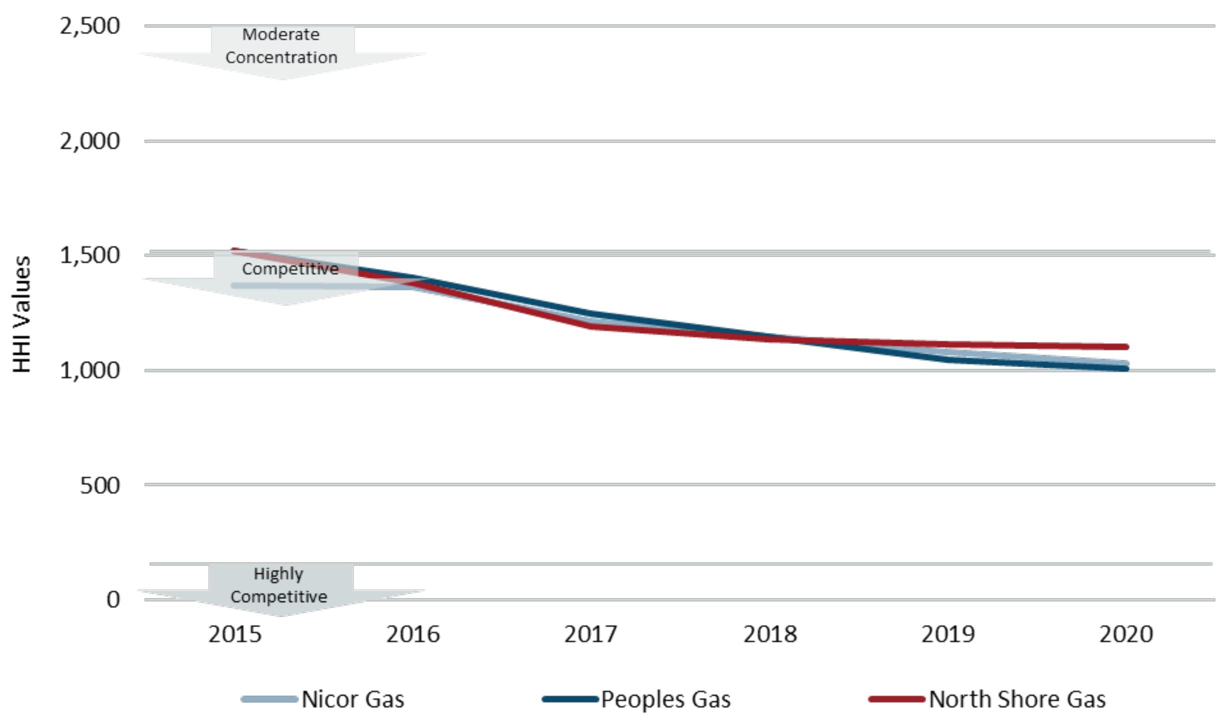



**Table 10: AGS MARKET SHARE IN UTILITY TERRITORIES (BY CUSTOMERS)**

| Residential Market Share: Customers | Nicor Gas | | | | Peoples Gas | | | | North Shore Gas | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 |
| Largest Three Suppliers % Share | 47% | 43% | 44% | 35% | 50% | 46% | 42% | 40% | 44% | 42% | 40% | 43% |
| Range of Share | Count of suppliers for each portion of market share | | | | | | | | | | | |
| > 15% | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 |
| ≤15% and > 5% | 6 | 7 | 7 | 7 | 8 | 7 | 7 | 8 | 7 | 8 | 7 | 6 |
| ≤5% and > 1% | 6 | 7 | 6 | 7 | 3 | 4 | 4 | 4 | 3 | 3 | 4 | 4 |
| ≤1% and > 0% | 16 | 17 | 20 | 22 | 8 | 9 | 14 | 19 | 6 | 8 | 10 | 15 |
| **Total Q of Active Suppliers** | **29** | **32** | **34** | **37** | **20** | **21** | **26** | **31** | **17** | **20** | **22** | **26** |

To get a better sense of how the residential market was being served, data was sorted to determine how many suppliers fell into percentile portions of the market share ranging up to above 15%. As an example, in the Nicor Gas territory, 22 suppliers had a market share of less than 1% of the switched customers, seven suppliers served more than 1% but less than or equal to 5%, seven suppliers served more than 5% but less than or equal to 15%, and only one supplier served more than 15% of the switched customers.

In the Nicor Gas and North Shore Gas territories, the number of suppliers with more than 15% of the market has stayed stagnant. Only the Peoples Gas territory saw a decrease in the number of suppliers with more than 15% of the market. The quantity of suppliers found in the Nicor territory with the market share segment of less than 15% has remained stagnant, the Peoples Gas territory has increased, and the North Shore Gas territory has decreased. Total active suppliers in each utility service territory has also increased with Nicor Gas adding three new suppliers, Peoples Gas adding five, and North Shore Gas adding four.

# VII. Summary and Recommendations

This is the seventh report from the Office of Retail Market Development (ORMD) pursuant to the updated Section 19-130 of the Public Utilities Act. Findings for 2020 within this report include:

- 55 AGS are certified by the ICC to serve the natural gas market
- Active AGS counts were 51 for the LVT market and 48 certified for the SVT market
- LVT suppliers serve over 33,000 large commercial and industrial customers in Illinois which is 9% of the eligible customers
- AGS across all four utility areas service 7-23% of LVT customers while providing 64-86% of the total therms consumed by LVTs
- Small volume transportation suppliers serve more than 258,000 residential and more than 54,000 small non-residential customers representing 8% of eligible residential customers and more than 19% of small commercial customers
- All three utility territories had a decrease in the quantity of residential customers switched to AGS service

## A. The Home Affordability and Transparency Act and Rulemakings

On August 27, 2019, Governor Pritzker signed into law PA 101-0590, the Home Energy Affordability and Transparency (HEAT) Act, which aims to enhance consumer protections and create transparency in the market. It is imperative that consumers understand the transactions they are participating in when engaging with AGS. Consumer education and transparency are essential to a successfully competitive market.

To increase transparency in the market, the HEAT Act required a number of additional disclosures on marketing materials, the Uniform Disclosure Statement (UDS), etc. Among the new requirements, the Act mandates that the utility gas supply costs rates per therm be included on all marketing materials and on all bills. The HEAT Act eliminates early termination fess, increased bond requirements, and adds a new bond requirement for suppliers who engage in in-person solicitation.

Additionally, the HEAT Act requires that AGS annually submit to the Commission and the Attorney General, the rates the AGS charged to residential customers in the prior year by September 30. This required filing shall include the distinct rate charged, whether the rate was a fixed or variable rate, the basis for the variable rate, and any additional fees charged. ORMD is required to include information pertaining to the rates charged in this report and can be found in section on pages 18 – 19.

The HEAT Act expands on consumer protections found in the Public Utility Act and the Consumer Fraud Act. As a result, Staff has initiated Code Part 512 rulemaking proceeding (Docket No. 17-0857) to ensure the Commission rules reflect changed brought about by the HEAT Act. As a result, the ORMD has no suggestions for administrative or legislative actions at this time.

## B. Moratorium on In-Person Solicitation by ARES and AGS

Due to the global Covid-19 pandemic, many states across the country declared public health emergencies. On March 9, 2020, Governor JB Pritzker declared that a public health emergency existed in the State of Illinois within the meaning of Section 4 of the Illinois Emergency Management Agency Act (IEMA Act). The Governor urged all Illinois citizens to avoid large assemblies and close contact with other to the extent possible. Additionally, the Governor urged employers to permit teleworking and other remote work to the extent possible.

Therefore, on March 18, 2020, the Commission unanimously concluded that it was vital to place a moratorium on in-person solicitations by ARES and AGS to slow the spread of Covid-19 and protect the citizens of Illinois[6]. As the State has moved to Phase 5 of the Governor's Restore Illinois framework, the Emergency Orders declaring the moratorium have been amended to allow in-person solicitations to resume subject to certain conditions laid out in the orders.

[6] The Emergency Orders can be found in Dockets 20-0310 and 20-0311.