

**OFFICE OF RETAIL MARKET DEVELOPMENT
ILLINOIS COMMERCE COMMISSION**

**ANNUAL REPORT ON THE DEVELOPMENT OF
NATURAL GAS MARKETS IN ILLINOIS**



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

October 2018

STATE OF ILLINOIS



ILLINOIS COMMERCE COMMISSION

October 1, 2018

The Honorable Bruce Rauner
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,

A handwritten signature in black ink that reads "Jean Gibson".

Jean Gibson
Deputy Executive Director, Policy

Contents

- I. **Statement of Purpose1**
- II. **Introduction2**
- III. **Executive Summary.....3**
 - A. Market Participation 3
 - Table 1: Summary of Market Indicators (Quantity)..... 3
 - Table 2: Summary of Market Indicators (Percent)..... 4
 - B. Market Competitiveness..... 5
 - Table 3: Summary of Market Competitiveness..... 5
 - C. Consumer Offers 6
- IV. **General Market Activity7**
 - A. AGS Requirements 7
 - B. Certified and Active AGS 7
 - Table 4: Certified AGS Statewide 7
 - Table 5: Active AGS by Utility Territory..... 7
 - Figure 1: Active AGS by Utility Territory..... 8
- V. **Large Volume Transportation (LVT) Market8**
 - A. LVT Customer Switching 9
 - Figure 2: Competitive Supply Percentages (Large Volume Transportation Market) 9
 - B. Market Concentration..... 10
 - Figure 3: HHI Values (Large Volume Transportation Market)..... 10
- VI. **Small Volume Transportation (SVT) Market11**
 - A. SVT Customer Switching 11
 - Figure 4: Competitive Supply Percentages (Small Volume Transportation Market)..... 12
 - B. Residential Market..... 12
 - Table 6: Quantity of Residential Customers on Competitive Supply..... 12
 - Figure 5: Competitive Supply Percentages (Residential Market)..... 13
 - C. Commission Website 13
 - 1. Supplier Marketing..... 13
 - Table 7: AGS Posting Offers on the ICC Website..... 14
 - Table 8: Residential Offers Posted on the ICC Website..... 14
 - 2. Residential Offers by Utility 14
 - Table 9: Breakdown of Offers Available to Customers on the ICC Website 14
 - D. Market Concentration..... 16
 - Figure 6: HHI Values (Small Non-Residential Market) 16
 - Figure 7: HHI Values (Residential Market) 17
 - Table 10: AGS Market Share in Utility Territories (by Customers)..... 17
- VII. **Summary and Recommendations19**

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 1 of each year, beginning in 2015, 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.”*

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 is 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. **The 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 2018 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 been increasing. 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 increasing. 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
	2016	2017		
Quantity of Customers	410,458	411,418	↑	0.2%
Nicor Gas	292,441	296,700	↑	1.5%
LVT	15,875	15,315	↓	-3.5%
SVT	276,566	281,385	↑	1.7%
Peoples Gas	93,587	89,722	↓	-4.1%
LVT	7,723	7,566	↓	-2.0%
SVT	85,864	82,156	↓	-4.3%
North Shore Gas	17,068	17,343	↑	1.6%
LVT	1,689	1,650	↓	-2.3%
SVT	15,379	15,693	↑	2.0%
Ameren	7,362	7,653	↑	4.0%
LVT	7,362	7,653	↑	4.0%
Usage Provided by AGS	3,945,677,187	4,408,404,464	↑	11.7%
Nicor Gas	2,166,854,334	2,192,971,150	↑	1.2%
LVT	1,727,897,096	1,744,469,392	↑	1.0%
SVT	438,957,238	448,501,758	↑	2.2%
Peoples Gas	720,023,655	1,005,765,704	↑	39.7%
LVT	585,173,463	863,061,344	↑	47.5%
SVT	134,850,192	142,704,360	↑	5.8%
North Shore Gas	132,218,807	150,158,498	↑	13.6%
LVT	107,782,909	120,346,658	↑	11.7%
SVT	24,435,898	29,811,840	↑	22.0%
Ameren	926,580,392	1,059,509,112	↑	14.3%
LVT	926,580,392	1,059,509,112	↑	14.3%

2017 Snapshot

32,184

LVT customers on AGS supply, compared to 32,649 in 2016.

379,234

SVT customers on AGS supply, compared to 377,809 in 2016.

50%

of natural gas in the state supplied by AGS, compared to 47% in 2016.

51 AGS

certified in the state, compared to 44 in 2016.

The percentages in Table 2 compare:

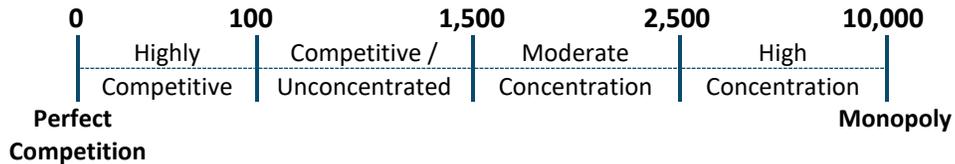
1. The total number of customers on AGS supply to the total number of customers in the market.
2. The total usage provided by AGS as a percent of the total usage provided to the market.

Table 2: SUMMARY OF MARKET INDICATORS (PERCENT)

	Percent of Total Market		Trend	Percent Change
	2016	2017		
Quantity of Customers	12%	12%	↓	-0.1%
Nicor Gas	13%	13%	↑	0.1%
LVT	8%	8%	-	-
SVT	12%	13%	↑	1.0%
Peoples Gas	10%	9%	↓	-0.8%
LVT	10%	9%	↓	-1.0%
SVT	10%	9%	↓	-1.0%
North Shore Gas	10%	10%	↓	-0.1%
LVT	12%	12%	-	-
SVT	10%	10%	-	-
Ameren	10%	11%	↑	0.4%
LVT	10%	11%	↑	0.4%
Usage Provided by AGS	47%	50%	↑	3.0%
Nicor Gas	48%	48%	↑	0.4%
LVT	70%	70%	-	-
SVT	10%	10%	-	-
Peoples Gas	31%	39%	↑	7.5%
LVT	62%	77%	↑	15.0%
SVT	10%	10%	-	-
North Shore Gas	30%	30%	↓	-0.2%
LVT	69%	65%	↓	-4.0%
SVT	9%	10%	↑	1.0%
Ameren	86%	94%	↑	7.9%
LVT	86%	94%	↑	7.9%

B. Market Competitiveness

The competitiveness of the market is also an important indicator. 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 10. 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):



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 mostly consistent with last year. The LVT market has also remained consistent for all territories except Peoples Gas, which has moved from a highly concentrated market to a moderately concentrated market. 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		Current Designation	Trend	Percent Change
	2016	2017			
Concentration of AGS Market					
Nicor Gas					
LVT	1,233	1,310	Competitive	↑	6.2%
SVT - Non-Residential	1,309	1,272	Competitive	↓	-2.8%
SVT - Residential	1,366	1,216	Competitive	↓	-11.0%
Peoples Gas					
LVT	3,495	2,280	Moderate Concentration	↓	-34.8%
SVT - Non-Residential	1,223	1,261	Competitive	↑	3.1%
SVT - Residential	1,403	1,245	Competitive	↓	-11.3%
North Shore Gas					
LVT	3,419	2,944	High Concentration	↓	-13.9%
SVT - Non-Residential	2,021	2,014	Moderate Concentration	↓	-0.3%
SVT - Residential	1,382	1,189	Competitive	↓	-14.0%
Ameren					
LVT	1,361	1,377	Competitive	↑	1.2%

C. Consumer Offers

Consumer resources are available on the ICC website and, as of August 2018, Nicor Gas had 28 different residential offers posted, Peoples Gas had 27 different residential offers posted, and North Shore Gas had 26 different residential offers posted. A majority of these offers have fixed rates, typically for a year, with early termination fees.

IV. General Market Activity

A. AGS Requirements

To serve as an LVT supplier, a certification from the ICC is not required. 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 51 AGS companies that have obtained ICC certification pursuant to Section 19-110, up from 44 suppliers in 2017.

Table 4: CERTIFIED AGS STATEWIDE

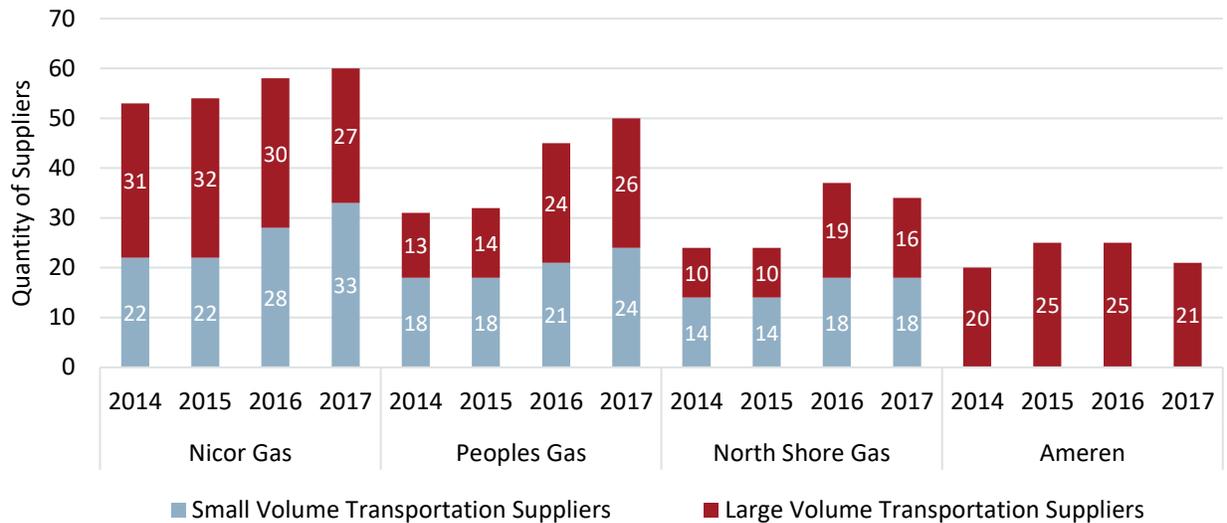
	2016	2017	2018	Trend	Percent Change from 2017 to 2018
Total Quantity of Certified AGS	41	44	51	↑	+15%

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 2015	Dec 2016	Dec 2017	Trend	Percent Change from 2017 to 2018
Nicor Gas Territory					
SVT market	22	28	33	↑	+18%
LVT market	32	30	27	↓	-10%
Peoples Gas					
SVT market	18	21	24	↑	+14%
LVT market	14	24	26	↑	+8%
North Shore Gas					
SVT market	14	18	18	—	—
LVT market	10	19	17	↓	-11%
Ameren Illinois Territory					
LVT market	25	25	21	↓	-16%

Figure 1: ACTIVE AGS BY UTILITY TERRITORY



Overall, data this year shows increased new entry by alternative gas suppliers in the LVT market for Peoples Gas, whereas the quantity of AGS serving the LVT market decreased in all other territories. The quantity of AGS serving the SVT markets in the Nicor Gas and Peoples Gas territories increased. The quantity of supplier participation in the SVT market has gone unchanged in the North Shore Gas territory.

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 try 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 that choose to transport their own gas rather than purchasing gas directly from their LDC under bundled tariffs.

In 2017, there were 43 active LVT suppliers in the Nicor Gas, Peoples Gas, North Shore Gas, and Ameren Illinois territories. These suppliers **served more than 32,000** Illinois large commercial and industrial customers and provided **77%** of the market's supply.

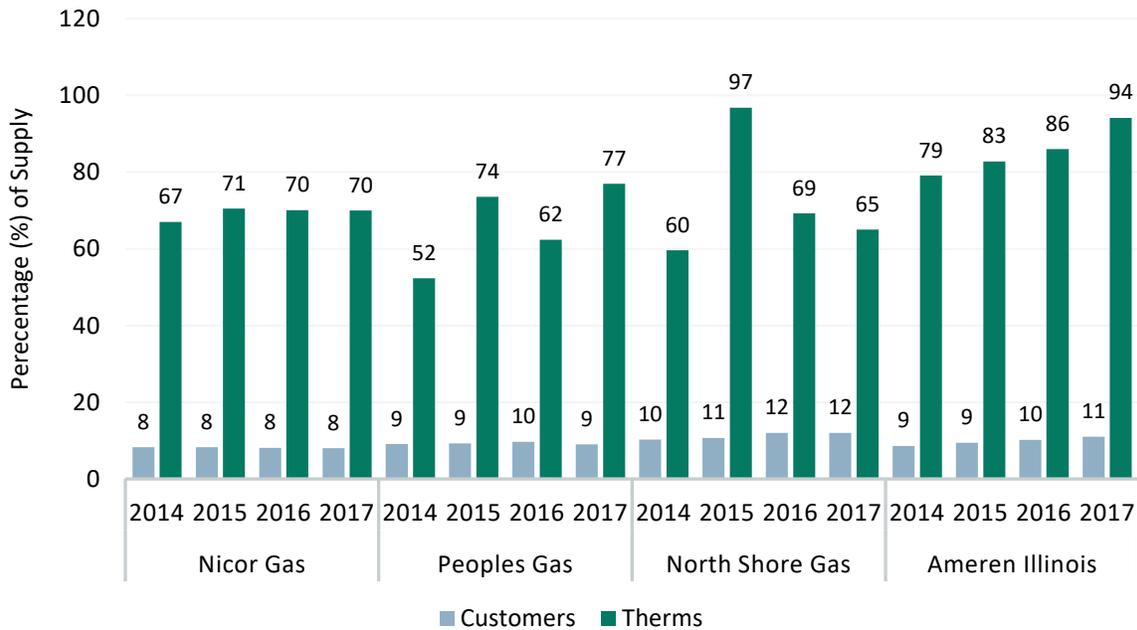
LVT market activity will be captured by looking at two different indicators:

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 2017 calendar year. Details depicted below show activity in terms of number of customers switched and related gas usage in therms over the last four 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 2017 gas suppliers provided service to 8-12% of the large volume customers while providing 65-94% of the total therms consumed by all large volume customers.

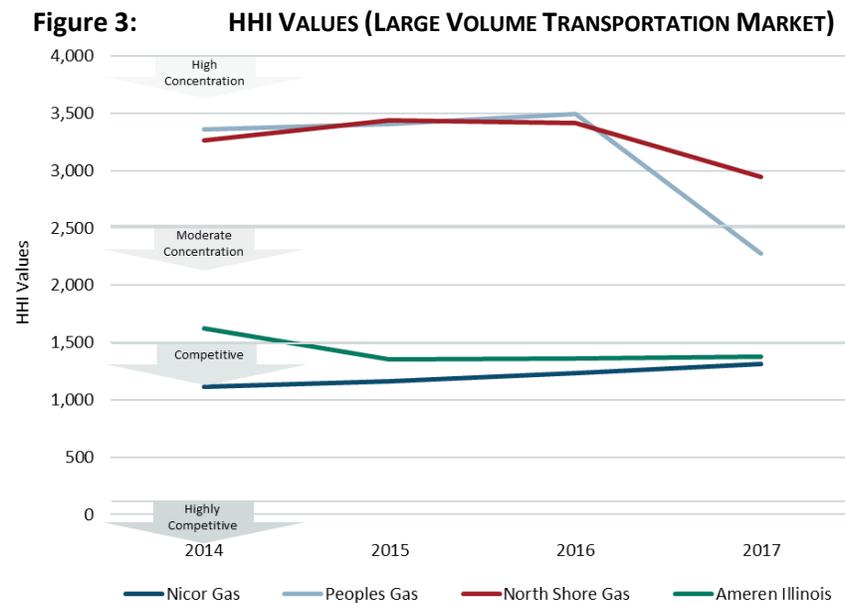
Ameren Illinois continues to have a slight increase year-over-year in each of the last four years in terms of customers switching and associated therm usage. It may also be noted that while fewer Peoples Gas customers are receiving supply from an AGS, the total AGS-provided usage in this territory has increased. LVT customers in the North Shore Gas territory on AGS-provided supply has remained consistent, but the amount of therms supplied has decreased. Nicor Gas maintained their customer and usage activity.

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 2014 to 2017.



As shown, the Nicor Gas and Ameren Illinois LVT markets remain competitive—meaning more suppliers with customers. Peoples Gas and North Shore Gas LVT markets continue to show significantly higher concentration. In 2017, the Peoples Gas market transitioned from being highly concentrated to moderately concentrated. 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 2017, there were 31 active SVT suppliers in the Nicor Gas, Peoples Gas, and North Shore Gas territories. These suppliers served more than **325,000** residential customers and **more than 53,000** small commercial customers.

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

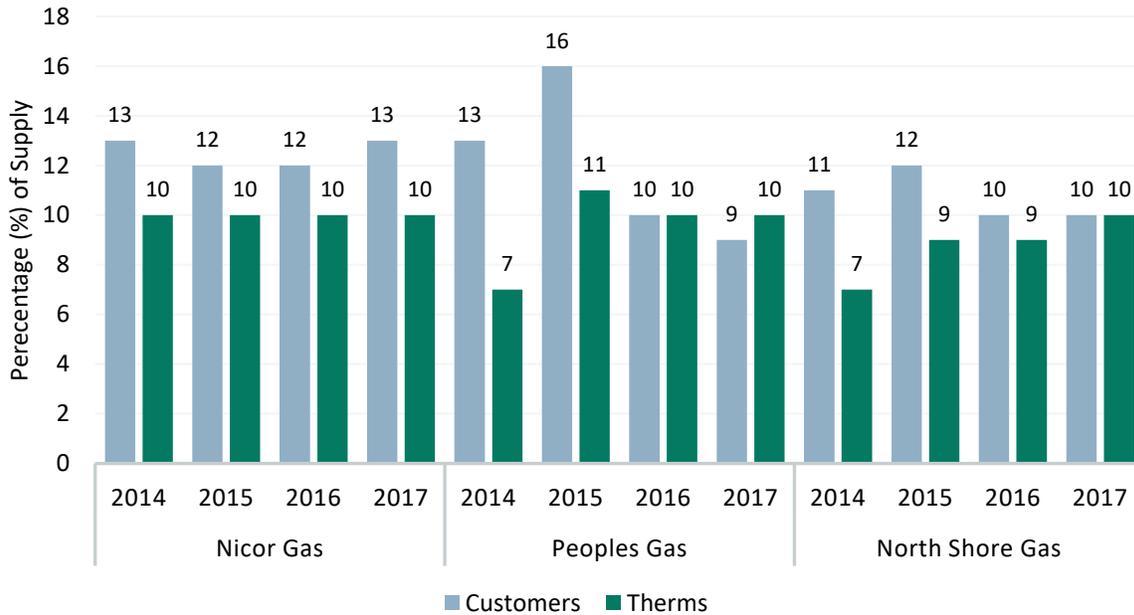
1. The quantity of SVT customers switching away from the utility supply service for each of the three utility areas
2. The quantity and types of residential offers posted on the ICC website
3. A market competitiveness analysis and a breakdown of residential market share among AGS

A. SVT Customer Switching

For purposes of this report, gas utilities provided data on each SVT supplier for the 2017 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 four years.

As mentioned above, SVT includes residential and small non-residential customers. Also, Ameren Illinois does not have a small volume transportation program at this time.

Figure 4: COMPETITIVE SUPPLY PERCENTAGES (SMALL VOLUME TRANSPORTATION MARKET)¹



In contrast to the LVT market, the SVT market percentage of switched customers is almost always greater than the percentage of switched usage. This is not surprising, given that virtually all non-residential customers are eligible for both the LVT and SVT programs. Further, the percentage of SVT customers who have switched is greater than the percentage of switched LVT customers. In terms of usage, the reverse is true. 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

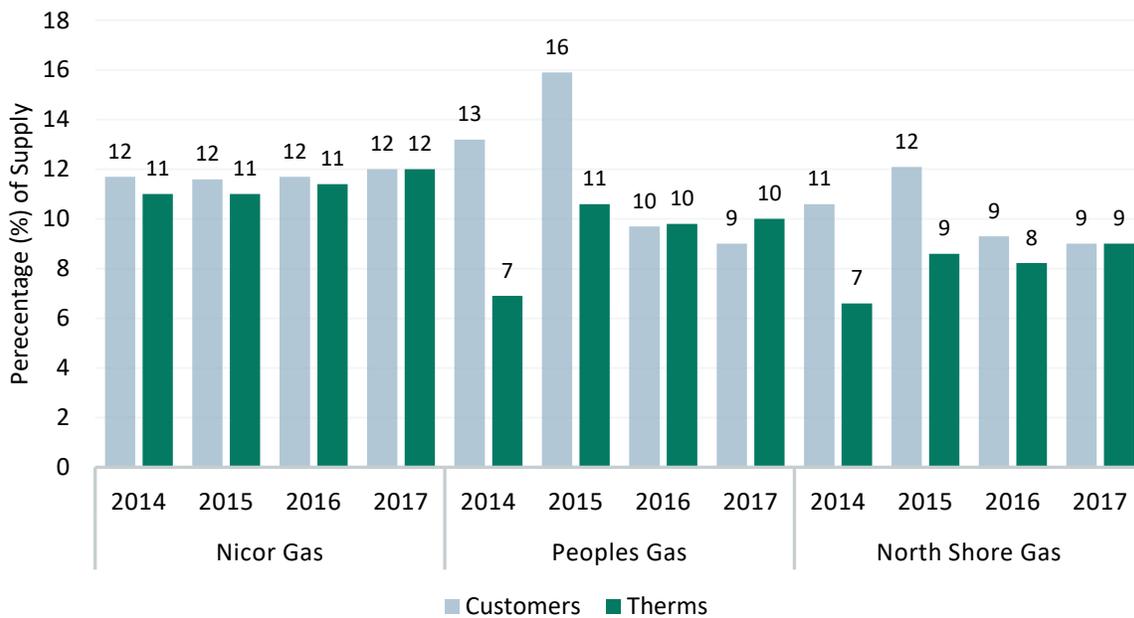
	December 2014	December 2015	December 2016	December 2017
Nicor Gas	235,919	234,304	236,374	240,333
Peoples Gas	98,423	119,709	74,559	71,320
North Shore Gas	15,327	17,441	13,591	13,813
Total	349,669	371,454	324,524	325,466
Percent of Customers in the Utility Territory on AGS Supply				
Nicor Gas	11.7	11.6	11.7	11.8
Peoples Gas	13.2	15.9	9.8	9.0
North Shore Gas	10.6	12.1	9.3	9.3

¹ This figure in previous reports presented the data for the non-residential SVT market only. The historical data included in this figure has been updated to include the switching of non-residential and residential SVT consumers.

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, Nicor Gas has maintained its switching levels from previous years and, this year, has the highest share of residential customers receiving AGS service. This is because switching activity in both the Peoples Gas and North Shore Gas areas has remained steady after the 2015 decline in customer switching.

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 four years.

Figure 5: COMPETITIVE SUPPLY PERCENTAGES (RESIDENTIAL MARKET)



The graph above shows that, compared to the SVT market as a whole, the percentage of switched residential customers and switched residential usage are similar in the Nicor Gas territory. For the Peoples Gas and North Shore Gas areas, the residential switching percentages are virtually identical to the percentages for the whole SVT market, indicating that these two markets behave similarly in terms of customer switching and therm usage.

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 when taking into account that the posting of residential gas offers is mandatory for AGS companies but not for the alternative retail electric suppliers.

When compared to the same month last year, the number of suppliers posting has remained steady in the Nicor Gas and North Shore Gas territories. One fewer AGS is posting in the Peoples Gas territory. However, all three territories have shown a slight decrease in volume of offers available.

Table 7: AGS POSTING OFFERS ON THE ICC WEBSITE
Quantity of AGS Posting Residential Offers

	August 2015	August 2016	August 2017	August 2018
Nicor Gas	9	9	10	10
Peoples Gas	7	9	11	10
North Shore Gas	6	7	9	9

Table 8: RESIDENTIAL OFFERS POSTED ON THE ICC WEBSITE
Quantity of Offers

	August 2015	August 2016	August 2017	August 2018
Nicor Gas	29	24	32	28
Peoples Gas	24	21	30	27
North Shore Gas	21	17	29	26

2. Residential Offers by Utility

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

Table 9: BREAKDOWN OF OFFERS AVAILABLE TO CUSTOMERS ON THE ICC WEBSITE

Nicor Gas		August 2015	August 2016	August 2017	August 2018
Total Product Offers		29	24	32	28
Product Type	Fixed	20	16	19	20
	Variable	6	5	5	4
	Fixed/Variable	1	1	1	1
	Other	2	2	7	3
Termination Fee	Yes	16	15	22	19
	No	13	9	10	9
Length of Term (in Months)	< 12	4	4	6	4
	12	15	13	15	13
	13 – 23	2	2	3	2
	24	4	4	6	3
	> 24	2	1	2	1
	>36	2	0	0	0

Peoples Gas		August 2015	August 2016	August 2017	August 2018
Total Product Offers		24	21	30	27
Product Type	Fixed	15	14	18	19
	Variable	4	4	4	4
	Fixed/Variable	3	1	1	1
	Other	2	2	7	3
Termination Fee	Yes	17	14	23	20
	No	7	7	7	7
Length of Term (in Months)	< 12	3	4	8	4
	12	12	12	13	12
	13 – 23	1	1	3	2
	24	4	3	4	2
	> 24	2	1	2	1
	>36	2	0	0	0

North Shore Gas		August 2015	August 2016	August 2017	August 2018
Total Product Offers		21	17	30	26
Product Type	Fixed	12	11	18	19
	Variable	4	3	4	3
	Fixed/Variable	3	1	1	1
	Other	2	2	7	3
Termination Fee	Yes	17	13	23	19
	No	4	4	7	7
Length of Term (in Months)	< 12	2	3	8	4
	12	12	11	13	13
	13 – 23	0	0	3	2
	24	3	2	4	2
	> 24	2	1	2	1
	>36	2	0	0	0

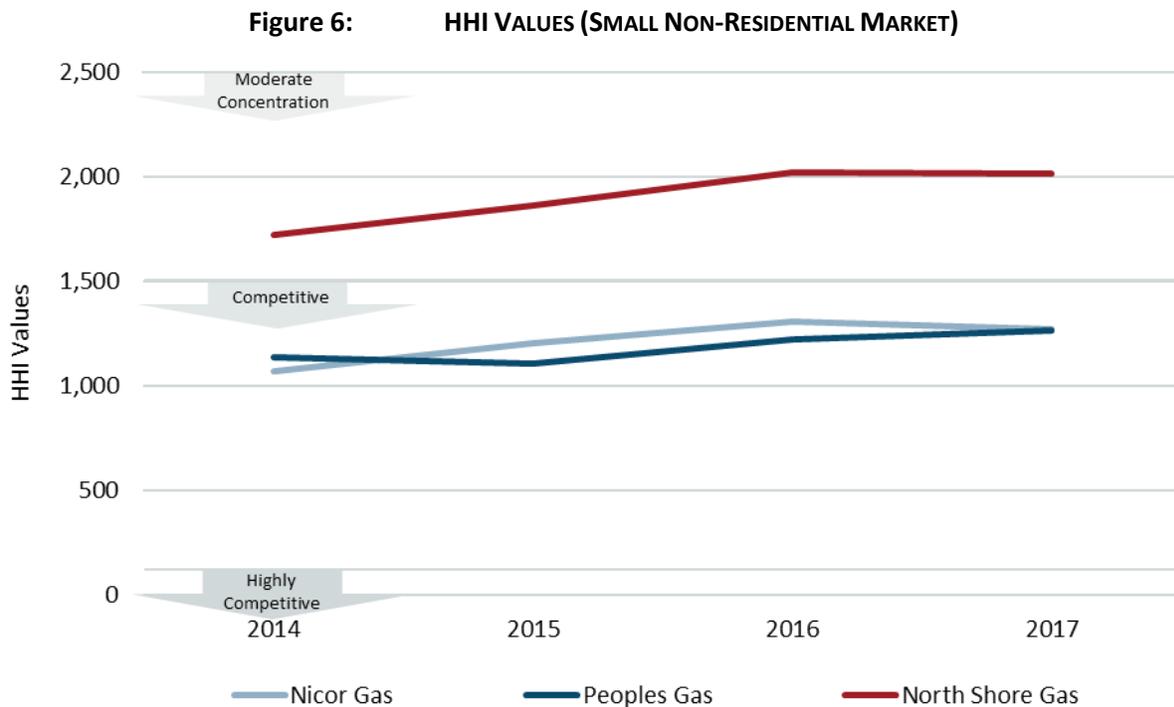
In all utility areas, the quantity of offers compared to 2017 has decreased, with the largest decrease occurring in the North Shore Gas area. The majority of residential offers are fixed price offers with an early termination fee (which is statutorily limited to \$50). Other options include offers with both fixed and variable components and some offers are “fixed bill” offers where 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.

D. Market Concentration

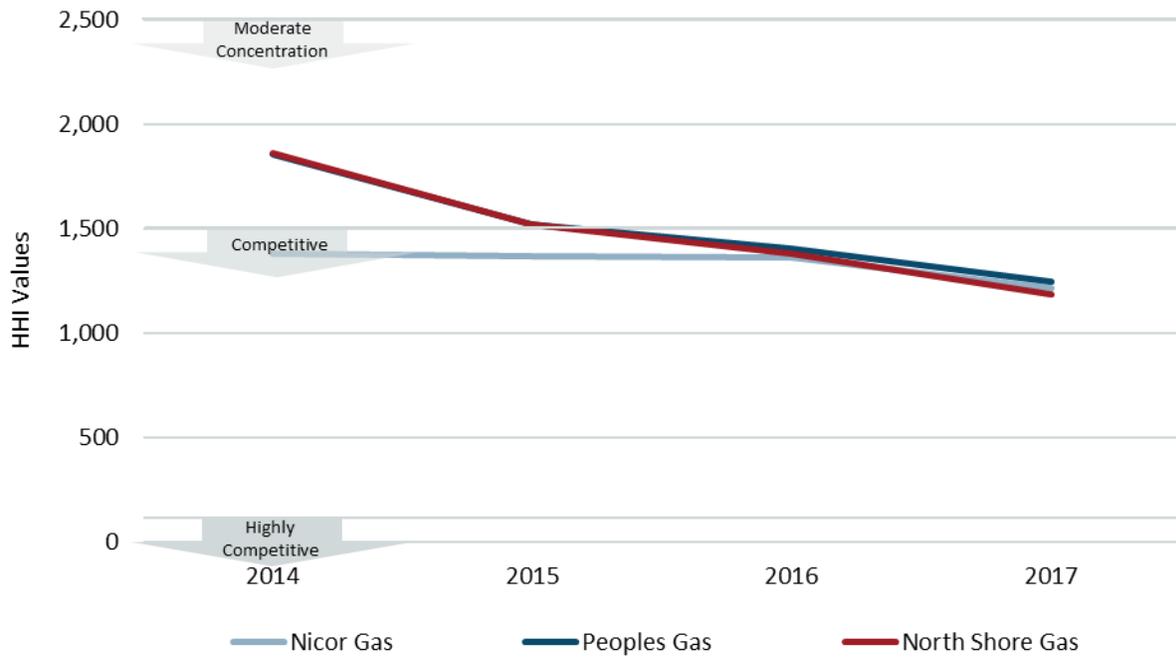
The market concentration for the SVT market was calculated using the same methodology as the LVT market. Market share analysis was based on the gas usage provided by each individual supplier in the SVT market rather than their share of customers. The difference between the percentage of switched customers 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 four-year market trends.

The first graph below illustrates that within the small non-residential portion of the SVT market, all HHI values 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.



When looking at the residential subset of the SVT market in the next figure, all three utility territories have become more competitive. 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)



The residential customer market share of the three largest suppliers continues to decrease in all territories. The North Shore Gas area saw a more significant decrease than the other utility areas as shown below.

Table 10: AGS MARKET SHARE IN UTILITY TERRITORIES (BY CUSTOMERS)²

Residential Market Share: Customers												
	Nicor Gas				Peoples Gas				North Shore Gas			
	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
Largest Three Suppliers % Share	55%	54%	51%	47%	66%	63%	55%	50%	60%	53%	52%	44%
Range of Share	Count of suppliers for each portion of market share											
> 15%	2	2	1	1	3	3	2	1	2	2	1	1
≤15% and > 5%	5	5	7	6	4	3	5	8	5	5	5	7
≤5% and > 1%	5	4	4	6	3	4	5	3	2	3	5	3
≤1% and > 0%	5	8	11	16	5	6	6	8	3	2	5	6
Total Q of Active Suppliers	17	19	23	29	15	16	18	20	12	12	16	17

² In the 2016 report, data was adjusted from previous yearly reports to clarify percentages and ranges. Suppliers are considered 'active' when they have more than one customer during the course of a reported year.

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, 16 suppliers had a market share of less than 1% of the switched customers, 6 suppliers served more than 1% but less than or equal to 5%, 6 suppliers served more than 5% but less than or equal to 15%, and only 1 supplier served more than 15% of the switched customers.

In all utility areas, the number of suppliers with more than 15% of the market has retracted. The quantity of suppliers found in the three market share segments of less than 15% have increased. Total active suppliers in each utility service territory has also increased with both Nicor Gas adding six new suppliers, Peoples Gas adding two, and North Shore Gas adding one.

VII. Summary and Recommendations

This is the fourth report from the Office of Retail Market Development (ORMD) pursuant to the updated Section 19-130 of the Public Utilities Act. Findings for 2017 within this report include:

- Fifty-one AGS are certified by the ICC to serve the SVT market
- Active AGS counts were 43 for the LVT market and 31 certified for the SVT market
- LVT suppliers serve over 32,000 large commercial and industrial customers in Illinois which is more than 9% of the eligible customers
- AGS across all four utility areas service 8-12% of LVT customers while providing 65-94% of the total therms consumed by LVTs
- Small volume transportation suppliers serve more than 325,000 residential and more than 53,000 small non-residential customers representing 11% of eligible residential customers and more than 18% of small commercial customers
- While the Nicor Gas and North Shore Gas areas had a small increase in quantity of residential customers switched to AGS service, the Peoples Gas area saw a small decrease

Currently, the state of the retail natural gas market appears stable with supplier activity in all of the utility territories. At this point in time, the ORMD has no recommendations for administrative or legislative action for the ICC or the General Assembly.