PPGA
PACIFIC PROPANE GAS ASSOCIATION

April 28, 2015

House Energy and Environment Committee
SB 32

Madam Chair and Members of the Committee:

My name is Lana Butterfield, representing The Pacific Propane Gas Association (PPGA). With me is Joe Westby, the President of PPGA. PPGA is a trade association of independent propane dealers in Oregon. PPGA opposed SB 32 in the Senate. We didn't feel it was fair for state government to help our biggest competitor, natural gas, to invade our territory and take our customers away from us. We feel SB 32 creates an unlevel playing field. We are extremely troubled by this issue.

However, we did not prevail on the Senate floor vote, so when you can't beat them, join them. In the House we are seeking an amendment. We thank Rep. Reardon for helping us draft the dash-one amendment and Rep. Johnson for his encouragement.

This type of bill is being considered in a number of states across the nation. In two states whose regulators have already done a similar study (see additional document), they have considered two important issues:

1. How will current ratepayers be impacted, especially in helping natural gas companies expand to get new customer?
2. How will small businesses already providing other fuels in areas into which natural gas wants to expand be impacted?

In its original version, SB 32 is very one-sided and doesn't take into account these factors. Our amendment expands the purposes of the work group.

"(e) The potential effect of the cost of projects involving the extension of natural gas pipelines and other infrastructure necessary for providing natural gas on the rates of, and the terms and conditions of service for, residential, commercial and industrial customers of public utilities that furnish natural gas;"

and

"(h) The potential effect of extending natural gas pipelines and other infrastructure necessary for providing natural gas on providers of other sources of energy."

We believe the work group should include a propane dealer representing potentially displaced fuel suppliers, and a representative of existing ratepayers. As Madam Chair said when we visited with her about our amendment, "it would give you a voice", rather than just giving public testimony.

PPGA is not asking you to vote "No" on SB 32. We are asking for your "Yes" vote on the dash-one amendment. It will make the bill a little bit more fair. Thank you for your consideration of PPGA's concerns.

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SB 32 (PUC task force to help expand natural gas territory)

Regarding the concern over charging current ratepayers to fund natural gas expansion:

New York

"Concerns remain regarding subsidization of expansions by existing ratepayers, particularly as such benefits shareholders."

State of New York Public Service Commission, *Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service, Order Instituting Proceeding and Establishing Further Procedures*, November 30, 2012 at http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7B33008B64-79D4-4DD3-B222-442061E06BAE%7D .

Vermont

"Another concern was that using ratepayer money to expand gas-distribution lines might place competitors, who do not have the same opportunity, at an unfair disadvantage."

See Vermont Public Service Board, *Request of Vermont Gas Systems, Inc. to establish a System Expansion and Reliability Fund with funds provided by reductions in the quarterly Purchase Gas Adjustment rate under the Alternative Regulation Plan, Order Amending Alternative Regulation Plan,* Docket 7712, September 28, 2011.

Quotes below are from

Line Extensions for Natural Gas: Regulatory Considerations

Ken Costello, Principal Researcher
National Regulatory Research Institute
Report No. 13–01, February 2013

"Someone has to pay for the "free" pipes, so their costs just pass to someone else, namely, utility shareholders or existing customers."

"Pricing utility service to new customers below incremental cost produces negative outcomes. First, new customers see improper price signals that can result in excessive fuel switching to natural gas. Second, this price places other fuels at a competitive disadvantage. Third, existing customers are worse off. The presence of new customers, in fact, raises the rates of existing customers, thereby failing the "burden test." Another way to restate this outcome is that existing customers would be better off without the new customers on the utility system. Pricing below incremental cost essentially increases rates for existing customers at the benefit of new customers."

"Subsidies funded by a utility's existing customers come across as both unfair and economically inefficient:

1. It is unfair to existing customers because they are involuntarily funding new customers at no benefit or less-than-commensurate benefits to them.
2. It is also economically inefficient if it induces additional energy consumers to switch to natural gas when they otherwise would not have if they had to pay the full cost of line extensions.
3. Subsidies also may distort competition among energy sources. By offering new gas customers subsidies, suppliers of oil, propane, and electricity would be at a disadvantage.
4. Even with public benefits, subsidies funded by existing customers might not constitute the most cost-effective approach for increasing the number of new gas customers and gas consumption."

From **Natural Gas Line Extensions and Fair Competition**, National Propane Gas Association

"From the perspective of competing fuel sources—such as propane—rolled-in rates to bring natural gas service to unserved areas or underserved areas amounts to unfair competition. The utility is using its existing monopoly franchise territory and its existing (essentially captive) customers within that area to make below-market natural gas service available to new customers that have competitive choices, to the damage of competing suppliers of energy. This is unfair competition. Moreover, it is unfair to the existing utility customers, who are called upon to subsidize new customers. In the rolled-in pricing scenario, the utility is essentially under-pricing the cost of providing service to new customers."