PACIFIC PROPANE GAS ASSOCIATION

Representing the Propane Gas Industry for

Alaska, Hawaii, Oregon and Washington

Comments of the Pacific Propane Gas Association
<u>On the SB 32 Work Group 2016 Draft Report to the Legislative Assembly</u>
July 20, 2016

The Pacific Propane Gas Association (PPGA) once again appreciates the opportunity to be heard with respect to its views on the issues being considered by the Senate Bill 32 natural gas working group. PPGA particularly appreciates the manner in which Staff has conducted the working group sessions and has heard the varying viewpoints of the different stakeholders in the process. PPGA commends Staff for its even-handed presentation of these views in the draft report.

PPGA endorses the reading given to Senate Bill 32 by Staff. The legislature has certainly recognized the benefits of natural gas as a fuel and has required the Oregon Public Utility Commission to convene a work group to solicit input from stakeholders and to explore means by which natural gas service might be made available to more consumers. The end result of this process is a report to the Legislature, not a plan to expand natural gas service to all citizens of Oregon. As Staff appears to have concluded, the reading of the statute championed by the natural gas utilities includes an element that is simply not there.

PPGA appreciates the recognition by Staff of its views on these issues. The types of expansions of natural gas service in Oregon that were addressed by the working group all appear to be <u>uneconomic</u>—delivery revenues for the service will not cover the costs of providing the service. Indeed, were the delivery revenues sufficient to cover the cost of service these expansions would already have occurred, as Northwest Natural, Avista, and Cascade presently have the means to undertake them, with no necessary change in policy or law. And there is no doubt that they have ready access to capital markets to fund such expansions. As the draft report points out, 95 percent of Oregonians in incorporated areas <u>already</u> have access to natural gas service.

As PPGA has expressed previously, natural gas expansions that are not economic run counter to sound public policy if they are subsidized by <u>either</u> taxpayers or existing captive natural gas customers. Utility shareholders, who have decided not to deploy their own capital, should not be subsidized by either taxpayers or captive utility customers. On the other hand if utility shareholders do desire to put their capital at risk in financing an expansion, then PPGA would have no objection. Subsidized natural gas expansion is wrong for many reasons, including:

- It violates the fundamental utility regulatory principle that costs should be allocated to those who cause them to be incurred
- It underprices the service to those who receive it, resulting in an inflated demand for the service
- By underpricing the service and inflating the demand, it causes an inefficient allocation of resources

- Natural gas service is not a public good such as parks and highways, where the costs involved are shared among all citizens
- Even if natural gas service were a public good, citizens would benefit more from funding any number of more worthy ventures
- It is unfair to the captive customers who are compelled to subsidize new customers and utility shareholders and who receive little, if any, benefit from the expansion
- It unfairly, and without justification, tilts the competitive playing field against competing energy sources such as electricity, propane, fuel oil, and wood.

PPGA recognizes that natural gas expansion can benefit existing natural gas customers. This is, however, an inherently fact-specific analysis, of the type for which utility regulators have great experience. Broad generalizations have no place in assigning expansion costs to existing customers. Clearly there will be instances in which existing customers receive benefits in terms of system reliability, but these will be fact specific. In contrast, benefits associated only with increased throughput (for example, spreading general and administrative costs over more units of throughput) will usually be so modest as to be difficult to measure. Additionally, benefits for existing natural gas customers are to be found in the numbers in the utility's books—not hypothetical and unverifiable economic development and environmental "benefits".

At the heart of this inquiry is the cold fact that expanding a natural gas network is an exceedingly expensive venture, with system costs hovering around $1 million per mile. As the report points out, two factors are determinative—population and distance to a natural gas distribution or transmission line. The result is that high population density near natural gas lines leads to affordable expansion; low population density remote from a natural gas line leads to unaffordable expansion. Most of Oregon that is unserved falls in the latter category; it is the unavoidable fact. Natural gas service to these communities will simply not be possible without significant wealth transfers. Neither the Oregon Public Utility Commission nor the Legislature have it within their powers to change these facts. As the report concludes, the cost of natural gas expansion is a major impediment.

Contact:
Lana Butterfield
Oregon Lobbyist
Pacific Propane Gas Association
lanab@teleport.com
503/682-3839 office
503/819-5800 cell