Comments of the Pacific Propane Gas Association
<u>On Proposal by the Northwest Gas Association</u>

The Pacific Propane Gas Association (PPGA) appreciates the opportunity to present its views on the issues being considered by the Senate Bill 32 natural gas work group. PPGA here offers specific comments on the proposal distributed by the Northwest Gas Association (NWGA) at the meeting of the work group on May 5, 2016.

PPGA disagrees with the reading given to Senate Bill 32 by NWGA. NWGA essentially argues that the legislature has already determined that Oregon's natural gas systems should be expanded and that the Public Utility Commission is charged with making it happen. Instead, the legislature has recognized the benefits of natural gas as a fuel and required the Public Utility Commission to convene a work group to solicit input and to explore means by which natural gas service might be made more available to consumers. A number of issues are identified for the work group to address, and the final product is a report to the legislature—not a plan for expanding the natural gas network. Had the legislature intended to mandate that the state's natural gas system be expanded and that the Public Utility Commission be the instrumentality for doing so, it certainly could have, and would have, stated this.

Line Extension Policy Modification. As the work group knows, PPGA believes that natural gas expansions that are not economic run counter to sound public policy if they are subsidized by either 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 can interpose no objection.

In one fashion or another determining whether a proposed expansion is economic requires comparing anticipated delivery revenue from the expansion with the costs of constructing and operating it. There are a number of analytical tools for doing so, but they all essentially compare the delivery revenue stream with the costs.

PPGA does not offer any specific guidance with respect to modifying existing line extension policy, but it should not be used as a tool to predetermine the outcome of line extension proposals. The apparent suggestion by NWGA that the revenue stream <u>in perpetuity</u> be used as the basis for analysis would appear to be a mechanism to predetermine the outcome. Business decision-makers do not make investment decisions on the basis of possible perpetual revenue streams for assets. Rather, any line extension policy should track the models that managers employ in determining whether it is economic for the utility to deploy its shareholders' capital. Utilities should not be permitted to use one form of analysis for its shareholder investments and a different one for assessing potential line extensions.

Natural Gas Expansion Tariff Rider. NWGA speaks of methods by which funds "could be accumulated" to cover any future shortfall in revenues from a proposed expansion. The NWGA paper is vague on this point, but presumably such a mechanism would include surcharging existing customers in order to develop a pot of dollars to fund line extensions. Or it might include directing pipeline and supplier refunds or refunds ordered by the Public Utility

Commission itself to a reserve to fund line extensions. Any such mechanism would be a wolf in sheep's clothing, as such refunds would ordinarily be distributed to the customers that paid these costs in the first instance. Again, although the NWGA paper is vague, in all likelihood these mechanisms would be shell games, played with other peoples' money.

Portfolio Treatment of Allowable Investment. Admittedly where significant numbers of prospective customers are involved it may not be efficient to assess the economics of serving each new customer down to the nickels and cents. Nevertheless, a portfolio approach can result in material subsidization between different groups of prospective new customers. Should a portfolio approach be adopted the Commission should design it carefully so that cost-causation principles are observed.

Geographic Surcharges. NWGA suggests that "geographic surcharges" might be employed to promote system expansion. PPGA does not oppose surcharges to new customers so that the total revenue from those customers covers the total cost of serving them. PPGA would, however, object to a "geographic surcharge" under which existing utility customers in a geographic area would subsidize service to new utility customers in that or another region.

Customer Assistance. NWGA suggests that the Commission consider assistance to new customers in making a conversion to natural gas. In most circumstances this would address piping in the home and either conversion or replacement of appliances. The Commission should not entertain any suggestions of this nature, which call for yet a further customer subsidy. Experience has shown that customer conversion/replacement costs can run in the vicinity of $4,000-10,000 per home. The existing customers of the utility (some of which have certainly paid for their own conversion costs) should not be assisting new customers to install piping and appliances in their homes. Should the Commission entertain such a proposal, it should also extend it to the customers of competing energy sources such as propane.

NWGA speaks of making "excess line extension allowances" available to new customers to fund piping and appliances. Line extension allowances are essentially grants from existing customers to new customers. Making them available to new customers for conversion costs would simply represent one more tax on existing natural gas customers to subsidize both new customers and utility shareholders.

NWGA also speaks of using energy efficiency credits to fund conversion costs. Propane, like natural gas, when employed in direct flame applications, is more efficient than comparable electric applications. If the Commission entertains utilizing energy efficiency credits for natural gas conversion, it should also adopt a similar program for new and existing propane customers, who help reduce the state's demand for electricity.