

HOUSE BILL REPORT

ESHB 2177

As Passed House:
February 14, 2014

Title: An act relating to the expansion of natural gas infrastructure in rural or underserved areas.

Brief Description: Concerning the expansion of natural gas infrastructure in rural or underserved areas.

Sponsors: House Committee on Technology & Economic Development (originally sponsored by Representatives Morris, Morrell, Blake and Fey).

Brief History:

Committee Activity:

Technology & Economic Development: 1/17/14, 1/31/14 [DPS].

Floor Activity:

Passed House: 2/14/14, 96-0.

Brief Summary of Engrossed Substitute Bill

- Directs the Utilities and Transportation Commission (UTC) to conduct a process that allows customers and utilities to bring forth innovative proposals for the financing and building of natural gas infrastructure.
- Directs the UTC to adopt rules by July 1, 2015, that promote incremental investments in natural gas infrastructure expansions.
- Requires natural gas companies to include in their natural gas main extension tariffs provisions that would allow for advances for construction from main extension applicants.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 17 members: Representatives Morris, Chair; Smith, Ranking Minority Member; Short, Assistant Ranking Minority Member; DeBolt, Fey, Freeman, Hudgins, Kochmar, Magendanz, Morrell, Ryu, Stonier, Tarleton, Vick, Walsh, Wylie and Zeiger.

Staff: Scott Richards (786-7156).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

The Utilities and Transportation Commission.

The Utilities and Transportation Commission (UTC) regulates the rates, services, and practices of privately owned utilities and transportation companies. These companies include electricity, natural gas, certain telecommunications services, water, solid waste collection, commercial ferry service, transportation of household goods, certain auto transportation service, and transportation of petroleum through pipelines. It is the UTC's responsibility to ensure regulated companies provide safe and reliable service to customers at reasonable rates, while allowing them the opportunity to earn a fair profit.

There are four UTC-regulated retail natural gas companies operating in Washington. They include:

- Avista Corporation;
- Cascade Natural Gas;
- NW Natural; and
- Puget Sound Energy

Municipal Natural Gas Utilities.

Additionally, there are three municipal natural gas utilities offering retail natural gas services. These municipal natural gas utilities are not regulated by the UTC. They include the cities of:

- Buckley;
- Enumclaw, and
- Ellensburg.

Interstate Natural Transmission Pipelines.

Two interstate natural gas transmission pipelines traverse Washington. These pipelines transport natural gas transport to and through Washington from major supply basins in the Rockies, Northern Alberta, and Northern British Columbia. These interstate natural gas transmission pipelines are owned and operated by TransCanada's Gas Transmission Northwest and Williams Northwest Pipeline.

Summary of Engrossed Substitute Bill:

Process to Develop Proposals for the Financing and Building of Natural Gas Infrastructure.

The Utilities and Transportation Commission (UTC) is directed to conduct a process that allows customers and utilities to bring forth innovative proposals for the financing and building of natural gas infrastructure. The goals of these innovative proposals are to:

- develop and implement alternatives to general rate case proceedings that will cause the extension or expansion of natural gas infrastructure to occur in order to serve some citizens of Washington;
- extend natural gas services to areas where woodstoves provide the primary source of residential heating;
- encourage the development of industrial land that lacks natural gas distribution infrastructure; and
- allow gas companies to recover the capital costs of the infrastructure over the life-cycle of that infrastructure while mitigating the risk of stranded assets.

In developing and implementing alternatives to general rate case proceedings, the commission must pursue alternatives that facilitate the extension or expansion of natural gas infrastructure to rural areas or urban areas referred to as "donut holes" that have insufficient or no access to natural gas as an energy resource. A donut hole is defined as an area within a utility's service territory that was underdeveloped when the natural gas system was built out. The previously underdeveloped area now includes homes, businesses, and institutional and industrial facilities that could use natural gas, but does not have access to natural gas services.

Rules to Promote Incremental Investments in Natural Gas Infrastructure.

By July 1, 2015, the UTC must adopt rules that promote incremental investments in natural gas infrastructure expansions that by December 1, 2025:

- result in the residential conversion from wood or oil-fired boilers for space heating to natural gas, and the conversion from hog fuel and bunker fuel used in industrial processes to natural gas;
- produce \$250 million in pipeline expansion over a 10-year period, starting in 2015; and
- result in 50,000 residential natural gas conversions that currently use wood or oil-fired boilers for space heating over a 10-year period, starting in 2015.

The progress towards meeting the milestones in the rules must be measured by the UTC and reported electronically to the Legislature every four years by December 1 until 2025. The UTC must use econometric modeling software produced by Regional Economic Models Incorporated (REMI) in reporting on the milestones.

Natural Gas Main Extension Tariff.

Natural gas companies must include in their natural gas main extension tariffs provisions that would allow for advances for construction from main extension applicants. These tariffs must specify that where the requested main extension does not meet the economic feasibility criteria established by the natural gas company, the natural gas company may require the customer to provide funds to the gas company which will make the main extension economically feasible. These funds provided from the customer to the natural gas company are referred to as an advance for construction.

As additional customers are served off the main extension, the gas company refunds to the initial customer any advances for construction throughout the service life of the main extension.

Intent Language.

Intent language is provided that says, among other things, that it is the intent of the Legislature to provide mechanisms to ensure that as many parts of the state as possible have the economic opportunity to utilize natural gas as an energy resource to power businesses and heat homes.

Appropriation: None.

Fiscal Note: Available

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) North America is witnessing an abundance of natural gas resources becoming available and the beginnings of a new industrial revolution. Natural gas is becoming cheaper and the abundance of it in the United States is attracting industry from around the world. The intent of this bill is to provide a toolbox of policies that work on solving some of the problems with the development of natural gas infrastructure into rural and underserved areas of the state. Without additional policies that facilitate the development of natural gas infrastructure into these areas, we could become a state of haves and have-nots as it relates to access to natural gas and economic opportunity. Additionally, this bill seeks to address the use of woodstoves for space heating and the associated air quality issues in certain air quality non-attainment areas of the state.

There is a paradigm shift occurring relating to natural resources. There is a vast amount of natural gas available in North America. Substantial supplies of natural gas will be available for decades and the prices for the natural gas will remain stable. While there is talk of exporting natural gas, many would like to use the gas in the United States first. This bill takes a step in the direction of using these new supplies of natural gas domestically.

(In support with concerns) There are areas in Tacoma and Pierce County where the greater use of cleaner fuels such as natural gas could play a role in reducing particulates in the air.

(With concerns) There is a useful role for natural gas for home heating. However, any incentive provided by the state for natural gas infrastructure development should be tied to energy efficiency. This bill could exacerbate fuel switching situations. In some parts of the state, there are areas served by all electric utilities and incentives found in the bill would subsidize natural gas line extensions and promote fuel switching.

There are larger industrial users of natural gas in Washington and they are worried about the potential for rate cross subsidies from one user to another. These industries should not be required to subsidize the line extensions of others.

(Opposed) There are now many companies delivering propane into rural and underserved areas of the state. Natural gas companies should rely on existing margins provided by the Utilities and Transportation Commission when investing in infrastructure, rather than having current customers pay more to subsidize line extensions. The propane industry did not receive public funding to provide it serves into rural and underserved areas.

Persons Testifying: (In support) Representative Morris, prime sponsor; and Dan Kirshner, Northwest Gas Association.

(In support with concerns) Nancy Atwood, Puget Sound Energy.

(With concerns) Ann Rendahl, Utilities and Transportation Commission; Joni Bosh, Northwest Energy Coalition; Kathleen Collins, PacifiCorp; and Ed Finklea, Northwest Industrial Gas Users.

(Opposed) Mel Sorensen, Pacific Propane Gas Association; Derrick Grice, Ferrellgas; and Tom Allen, Acme Fuel Company.

Persons Signed In To Testify But Not Testifying: None.