

# SENATE BILL REPORT

## ESHB 2177

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As of February 26, 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:** Passed House: 2/14/14, 96-0.

**Committee Activity:** Energy, Environment & Telecommunications: 2/26/14.

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### SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

**Staff:** William Bridges (786-7416)

**Background:** Washington Utilities and Transportation Commission (UTC). The UTC regulates the rates, services, and practices of privately owned utilities and transportation companies operating in the state. 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.

The UTC regulates four retail natural gas companies: Avista Corporation, Cascade Natural Gas, NW Natural, and Puget Sound Energy.

Municipal Natural Gas Utilities. There are two municipal natural gas utilities in the state that offer retail natural gas services: Enumclaw and Ellensburg. Municipal natural gas utilities are not regulated by the UTC.

Interstate Natural Transmission Pipelines. Two interstate natural gas transmission pipelines traverse Washington. These pipelines transport natural gas 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 Bill:** Developing Proposals for the Financing and Building of Natural Gas Infrastructure. The UTC must conduct a process that allows customers and utilities to bring

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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 UTC 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.

Requiring 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 ten-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 ten-year period, starting in 2015.

The progress toward 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 in reporting on the milestones.

Financing Natural Gas Extensions. Natural gas companies must include in specified tariffs provisions requiring customers to pay for extending natural gas lines to their premises. The funds provided from the customer to the natural gas company are defined as an advance for construction. As additional customers are served off the extension, the company refunds to the initial customers any advances for construction throughout the service life of the extension.

Intent Language. Intent language provides, 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.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: An abundant supply of natural gas is sparking a new industrial revolution in North America. Because of inexpensive natural gas, manufacturing is starting to return to the United States. The bill will provide the tools to encourage new manufacturing to locate in Washington, particularly in rural areas. The bill intends that only customers who benefit from a natural gas extension project pay for it.

CON: Public money should not be used to subsidize natural gas extensions, which creates an unfair playing field for other energy providers.

OTHER: The beneficiaries of a natural gas extension should be the only parties who pay for it. An opportunity is being created that may encourage customers to switch from electricity to natural gas. The bill may also create unreasonable cost shifts. It should be clarified that natural gas should be used to displace wood burning, not other forms of energy. The UTC already has authority to develop alternative means to finance natural gas extensions; in fact, the bill may unintentionally limit this authority. The UTC has no expertise in encouraging the development of industrial land, and the goal of promoting natural gas conversions is inconsistent with its role as a regulator.

**Persons Testifying:** PRO: Representative Morris, prime sponsor; Dan Kirschner, Executive Director, NW Gas Assn.

CON: Mel Sorensen, Pacific Propane Gas Assn.; Greg Bowlin, VanderYacht Propane.

OTHER: Ed Finklea, NW Industrial Gas Users; Ann Rendahl, UTC; Kathleen Collins, PacifiCorp.