

Natural Gas Expansion Testimony

Thank you Mr. Chairman and committee members. I am Wayne Kohley, President and owner of Excel Propane Co., and a past President of the Michigan Propane Gas Association. My company, Excel Propane is a small Michigan business that employs 21 employees and has been in business since 1950.

For over 100 years, propane has been a consistent, reliable and affordable source of energy in Michigan and the rest of our country. During that time, propane has become a primary energy source to heat homes in rural areas. In fact, propane companies service all 83 counties in Michigan.

Let me begin by stating very clearly that the propane industry is pro-natural gas. Nearly all propane that propane customers across Michigan use comes directly from natural gas production. The increased production of natural gas means increased production of propane. These are terrific moves for Michigan and our nation for our collective energy security.

That said, House Bill #4303, the natural gas subsidization legislation before you seriously threatens the livelihood of my company and the jobs of my employees, along with hundreds of other propane companies in Michigan and several thousand of their employees.

First and foremost, natural gas utilities in our state already have the ability to expand natural gas lines to rural Michigan and have been doing so for quite some time. Like any business, if it's cost effective to expand, then they should do so. However, if it's not cost effective to expand, then it should not be done.

Again, those seeking natural gas already have the opportunity to do so. The Michigan Public Service Commission has a Customer Attachment Program that allows customers to attach to the utility system by paying the cost of attaching to the system. The Customer Attachment Program states; and I quote "Current customers do not subsidize the cost of adding new customers to their utility's system. New customers are charged for expansions based on costs to install the facilities that are offset by the revenue generated by the customers attached, figured over a 20-year period." End quote.

Unfortunately, House Bill #4303 would instead enable natural gas utilities to expand in areas where is it not cost effective by requiring **all their existing**

customers, which includes low-income residents, senior citizens, and small businesses, to bear the expansion costs for the benefit of a few. As defined, the bill will allow natural gas companies to expand to any part of our state where there is no existing natural gas infrastructure, and the nearly 80 percent of our state residents and businesses who are current natural gas customers will be forced to pay to expand the gas lines to areas where people chose to live outside of the natural gas infrastructure. Keep in mind that the utilities captive base of existing customers will receive no benefits from the addition of the new customers, yet they will be forced to pay for the subsidized expansions without any say in the matter. Needless to say, the Michigan Propane Gas Association opposes any subsidized expansion of natural gas.

This proposed subsidized expansion of natural gas lines allows utilities to make below-market natural gas service available to new customers that already have competitive choices, and to compete unfairly with other sources of energy. It results in rural consumers receiving subsidies regardless of their ability to pay. Individuals and businesses in the rural areas that can afford to pay for natural gas service would instead receive subsidized service as a result of increased taxes on low-income residents, senior citizens, and small businesses using natural gas. This legislation results in legislators picking winners and losers between for-profit businesses, and that's not what our government should be doing. It also results in the utilities under-pricing the cost of providing service to new customers, and that's not how businesses should be run. As I said earlier, if it economically makes sense for natural gas companies to expand, they should do it. But if it does not make economic sense, then it should not be done.

Creating new fees, taxes or mandatory surcharges on existing customers' energy bills should not be the way to fund natural gas pipeline expansions. It's extremely disappointing that the natural gas utilities, who already service almost 80% of all MI residents, think that they should get special treatment to get even more customers at the expense of Michigan's consumers and small businesses.

There is some inaccurate information regarding the potential savings from switching to natural gas. A Natural Gas Subcommittee Report on Energy and Job Creation released a few years ago stated that Michigan families would enjoy near \$2,400 of annual savings. **I am here to tell you that number is flat out wrong! And I can back that up with facts from the U.S Energy Information Administration (EIA) and the MPSC.** According to the EIA the average MI homeowner uses 770 gallons of propane per year. As a propane marketer

servicing almost 6000 Michigan residents I can attest to the accuracy of the 770 gallons per year. The MPSC produces a propane pricing report every year, and it shows that propane prices have ranged between \$2.00 and \$2.50 per gallon over the last 5 heating seasons. Using the MPSC range of \$2.00 to \$2.50 per gallon, and the EIA usage of 770 gallons equals a possible savings of \$860 to \$1245 if switching to natural gas. Not anywhere close to the \$2400 in savings stated in the Natural Gas Subcommittee Report.

Last year, we also heard about how this bill will help low income families. The MPGA is keenly aware of the issues facing low income families, and we have worked with DHS in the past on developing programs to help low income families. But taxing every natural gas customer, including low income families and senior citizens in order to provide subsidized natural gas service in the rural areas to customers regardless of their ability to pay is not how it should be done. Just comparing the cost of energy does not address the infrastructure costs associated with natural gas hookup. Natural gas may be cheaper than propane, but its infrastructure costs are substantially higher than those of the propane industry. Those hookup costs can range in the thousands if not tens of thousands of dollars. Additionally, what about the new appliances or other costs associated with retrofitting the home? Those costs can be in the thousands of dollars. **Finally, what about the low income and senior citizens who are going to see an increase in their utility bills to pay for this subsidization?** This gets back to the basic point: this doesn't make economic sense, and if it did the utilities would already be doing it.

If these reasons are not enough to question support for this legislation, what about the Michigan residents and businesses that already made the expensive choice to bring natural gas to their homes and businesses? These residents and businesses stepped up to the plate and paid for their own infrastructure costs. Now they are being asked to subsidize the costs for the people who won't. That isn't fair.

Another problem with this legislation is that **natural gas utility shareholders will NOT be paying for natural gas expansion investments.** The normal corporate concept is for owners and shareholders to pay for corporate investments because they are the ones that benefit by higher stock prices and increased dividend payouts. But this legislation makes the natural gas customers, who receive no benefits, to pay for the corporate investments.

What the natural gas utilities should be focusing on is safely taking care of their existing customers. The current natural gas infrastructure needs to be properly updated and maintained before efforts to expand are undertaken. We don't need more pipelines. We need better pipelines.

For instance, DTE gas leak surveys showed average hazardous leak counts quadrupled to 1,248 from 2006 to 2010. More than a quarter of the leaks in that average were caused by corrosion, according to data provided by the utility to the Federal Pipeline and Hazardous Material Safety Administration.

And Consumers Energy saw its corrosion-related hazardous leaks increase 69% in its main distribution lines from 2010 to 2013, with hazardous corrosion-related leaks jumping 22% to its service lines that go directly to homes and businesses over that time period.

To sum it up, the proposed legislation is subsidized, corporate welfare that will increase the utility bills of every business and individual family who is currently on natural gas at the expense of small businesses. The MPGA opposes this legislation and asks that you oppose this legislation. Michigan residents do not need any more taxes and fees on their energy bills; Michigan residents across the entire state should not be penalized and have to pay for corporations to expand their monopolistic practices in rural Michigan.

Thank you.