

**STATE OF MARYLAND
OFFICE OF PEOPLE'S COUNSEL**

Paula M. Carmody, People's Counsel

6 St. Paul Street, Suite 2102
Baltimore, Maryland 21202
410-767-8150; 800-207-4055
www.opc.state.md.us

BILL NO: HOUSE BILL 1083
Gas Companies - Service Extension - Costs

COMMITTEE: Economic Matters

HEARING DATE: March 8, 2012

SPONSORS: Delegate Rosenberg

POSITION: Informational

House Bill 1083 would authorize the owners of residential properties in a certain area who request extension of gas service to the area by a regulated gas company to obtain competitive proposals from "Utility Construction" Companies. "Utility construction companies" are not gas utilities. The Bill would require the Public Service Commission (Commission or PSC) to both establish a method for comparing these proposals and allow property owners to select between proposals to construct a gas service extension to the properties. The purpose of the Bill appears to be to provide some competitive cost alternatives to the cost of the installation performed by the regulated gas utility. The Office of People's Counsel understands the impetus for the Bill, but is not clear how this would be accomplished.

Gas distribution service is a fully regulated service. Companies like BGE, Washington Gas Light Company and Columbia Gas are authorized to operate gas distribution services under franchises granted to them, and are regulated as monopolies. While the companies are responsible for operating and maintaining their systems, the rates and fees they charge are subject to review and approval by the Public Service Commission. Unlike electric distribution systems, gas distribution systems do not extend throughout the entire State; there are areas without gas mains. If businesses or households are interested in the extension of the gas distribution system into their neighborhood or area, they can contact the local utility to request an extension of the system. The installation review and procedures and related costs are handled pursuant to Commission-approved utility tariffs. For example, Section 8 of Baltimore Gas and Electric Company's tariff, entitled "Extensions," provides for the general practice of extension of gas lines, the procedure to initiate an extension, and the methodology to calculate the cost to new customers of an extension of service.¹ In all instances, utilities are permitted to charge new customers for the costs of extension of service to their homes, rather than require existing customers to pay for the extension.

Depending on comparative fuel prices, utility customers may have an interest in fuel switching and current higher oil prices may encourage more of an interest now in switching to natural gas for heating purposes. Interested

¹ See

<http://www.bge.com/myaccount/billsrates/ratestariffs/gasservice/Gas%20Rates%20and%20Tariffs%20Documents/GasSection8.pdf>.

property owners sometimes express frustration about the utility tariff charges for the cost of extending a distribution system to their homes. This Bill is an attempt to address that dissatisfaction by allowing three or more residential property owners in a certain area to have the opportunity to seek an alternative estimated installation cost proposal from a regulated "Utility Construction Company." The residential customer would then appear to have an opportunity to compare an installation cost proposal from a Utility Construction Company to a similar proposal provided by the gas utility.

This approach attempts to use a competitive model within a regulated distribution service, but it is not apparent to OPC how this would work. Gas and electric utilities frequently carry out construction, installation and maintenance on their distribution systems through contracts with private contractors. However, the utility is the primary entity responsible for the quality and safety of the work done. This Bill appears to authorize and permit companies, independent of and not contractually responsible to the regulated utilities, and not subject to regulation by the Commission, to carry out the construction of the system extensions. However, the ownership and legal obligation for operation, maintenance and safety of these extensions would then be transferred automatically to the regulated utilities. If there is a concern about utility methods to calculate costs of new system extensions, it may be more straightforward to address this in Commission proceedings.