

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3052
APRIL 7, 1993

R E S O L U T I O N

RESOLUTION G-3052. REPORT TO THE LEGISLATURE PURSUANT TO ASSEMBLY BILL 218 (HAUSER) REGARDING A PUBLIC UTILITIES COMMISSION INVESTIGATION, INCLUDING WORKSHOPS, ON PROPANE SERVICE, RATES AND SAFETY, AND ON THE USE OF PROPANE AS A CLEAN TRANSPORTATION FUEL.

SUMMARY

1. In this resolution, the Commission adopts the "Report to the California Legislature on Propane Service, Rates and Safety" (Report) required under Assembly Bill 218.
2. The report concludes that there is no need for the Commission to assume jurisdiction over the rates and quality-of-service of the propane industry. The industry appears to be quite competitive, with propane distributors competing on the basis of price and service for the consumer's business.
3. The report concludes that there is a need for the Commission to assume jurisdiction over the safety of propane pipeline systems. This includes nine local distribution systems and a number of multi-customer systems such as condominiums, clusters of homes, and mobile home parks. Safety Division estimates there are 2,000 such systems in California. Assumption of this regulation should be made contingent upon the Legislature's providing necessary funding. Anticipated program cost is \$450,000/year. Federal funds might provide 20% of this amount.
4. The report provides a number of recommendations to the legislature to improve competition and consumer awareness in the propane industry. Recommendations include 1) having local governments regulate local propane distribution systems for rates and service under their current franchise authority if needed 2) improving competition by making it easier for customers to switch propane suppliers and 3) providing better billing information for propane consumers. Additionally, the report identifies a need for some form of low-income assistance program for propane users similar to the Commission's Low-Income Ratepayer Assistance Program (LIRA). These recommendations do not require Commission involvement.

BACKGROUND

Legislative Mandate

1. AB218 (Hauser) directed the Commission to:

Conduct an investigation, including workshops, on propane service, rates and safety, and on the use of propane as a clean transportation fuel.

The major focus of this study was on the price, service, and safety of propane service for residential and small commercial customers. Approximately 1 million Californians (3% of the population) rely on propane to meet their home heating needs. Propane usage is concentrated in rural areas where natural gas is not available such as the northern counties of the state, the Sierras, and the Sierra foothills with 10-30% of the households in these counties relying on propane for their heating needs.

As part of its study Commission staff reviewed government and publicly available data sources; interviewed members of government, industry, and consumer groups; and visually inspected several propane systems. Commission staff also conducted public workshops in the Russian River and Sierra Nevada areas of the state to receive public comments on the quality, price, and safety of propane usage.

DISCUSSION

Rate and Service Issues

2. The largest segment of the propane industry is the truck-delivery segment, where propane is delivered to a storage tank located on the customer's premises. The report concludes that there is no need for the Commission to assume jurisdiction over the price and service of propane delivered to residential customers via truck. The truck delivery segment of the propane industry appears to be quite competitive with a number of suppliers competing on the basis of price and quality of service for the consumer's business.

3. This determination was made using the criteria commonly used by the Commission to assess industry competitiveness such as number of competitors, market concentration, economies of scale, and barriers to entry. The report was unable to identify any other state that regulated the price of propane delivered by truck. The report also examined the retail prices for propane and the level of profits within the industry. Both prices and profit levels did not appear excessive given the cost of providing service.

4. The quality-of-service in the truck delivery segment of the propane industry generally appeared to be good with propane distributors seeming to compete against each other on the basis of quality of service in addition to price.

5. There are also nine pipeline distribution systems providing propane service to individual towns in California. These pipelines were regulated by the Commission until 1978 when the Legislature removed the Commission's authority. The report recommends that any rate or service regulation of these systems could be better done at the local government level through the use of local home rule and franchise powers that cities already possess.

6. The State Legislature has twice passed, and the Governor has twice vetoed, legislation that would have regulated the price of propane charged to residents of mobile home parks. The report offers suggestions for improving any proposed legislation in this area should the Legislature decide to pursue this issue again in the future.

7. Although the report concludes that the propane industry is generally competitive and not in need of extensive government regulation, the report also identifies several opportunities to improve competition within the propane industry and to assist consumers in making informed choices. These opportunities include improving competition by making it easier for customers to switch propane suppliers and providing better billing information for propane consumers. These recommendations do not require Commission involvement.

8. The report also identifies a need for some form of low-income assistance program for propane users similar to the Commission's Low-Income Ratepayer Assistance Program (LIRA), although the report does not identify either which agency would implement such a program or how such a program would be funded.

Safety Issues

9. The report concludes that there is a need for the Commission to assume jurisdiction over the safety of propane pipeline systems contingent upon the Commission's receiving the necessary funding to carry out an inspection program.

10. The federal Department of Transportation (DOT) currently has regulatory responsibility for safety for all propane systems that serve 10 or more customers. However, the DOT has neither the manpower nor the resources to provide meaningful safety oversight for this segment of the propane industry. The DOT has urged the Commission to assume the DOT's jurisdiction in this area.

11. The report recommends that the Commission's safety jurisdiction be extended to include the nine local propane distribution systems that the Commission previously regulated prior to 1978 as well as all mobile home parks that use propane. Regulation of propane mobile home parks would be similar to the Commission's existing regulation of safety issues at mobile home parks receiving natural gas service.

12. The report also recommends that the Commission assume safety jurisdiction over all multi-customer propane systems such as apartment houses, condominiums, small shopping centers and home clusters, again providing that the Legislature provides necessary funding. Safety Division estimates there are 2,000 such systems in California. Additionally, a Propane Safety Advisory Board (PSAB) would be established.

13. Estimated cost to the Commission of assuming jurisdiction of safety issues has been estimated by the Safety Division at a one-time start-up cost of \$50,000/year and an on-going program cost of \$450,000/year. Federal funds from DOT to compensate the state for assuming DOT jurisdiction might provide 20% of this amount.

FINDINGS

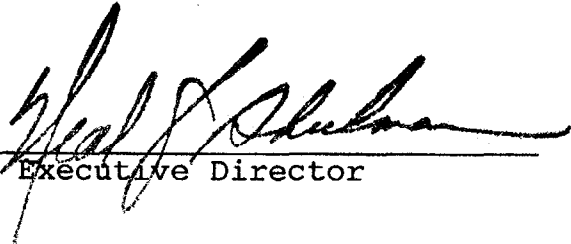
1. The "Report to the California Legislature on Propane Service, Rates, and Safety" complies with the mandates of Assembly Bill 218.

THEREFORE, IT IS ORDERED that:

1. The "Report to the California Legislature on Propane Service, Rates and Safety" required under AB218 is approved.

2. The Executive Director shall forward the report to the State Legislature and all other parties required to receive copies of the report.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 7, 1993. The following Commissioners approved it:



Executive Director

DANIEL Wm. FESSLER
PRESIDENT
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
Commissioners