

TESTIMONY OF THE PENNSYLVANIA PROPANE GAS ASSOCIATION
BEFORE THE HOUSE CONSUMER AFFAIRS COMMITTEE
OF THE PENNSYLVANIA HOUSE OF REPRESENTATIVES

PUBLIC HEARING AND INFORMATIONAL MEETING JANUARY 10, 2018

[HEARING WAS SUBSEQUENTLY CANCELLED ON JANUARY 3, 2018
TESTIMONY ACTUALLY SUBMITTED TO THE CHAIRMAN ON JUNE 18, 2018]

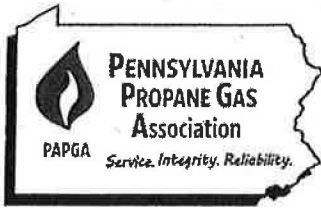
INTRODUCTION

May it please the Committee, my name is Kathy Speaker MacNett. I am a Harrisburg attorney, who has served as long-term Legislative Counsel to the Pennsylvania Propane Gas Association, sometimes referenced as PAPGA. Earlier in my career, I served as the Research Director to the House Labor Relations Committee, so I am particularly thankful for the opportunity to place PAPGA's views on the record.

PAPGA is the 501(c)(6) non-profit trade association for the Pennsylvania propane industry, consisting of some 400 members. PAPGA was incorporated in 1947 and remains an important resource in the training, education, and safety of Pennsylvania's propane industry. With me is Kara Tucker, the Vice President of Kopyy's Propane in Northern Dauphin County, a multigenerational family propane business. Kara holds an MBA from Northwestern University's prestigious Kellogg School of Management and serves as the Governmental Affairs Co-Chair of PAPGA.

We are here this morning to voice our strong opposition to HB 107, PN 84 and the concept of subsidized, socialization of natural gas extension. PAPGA has also sent committee members a letter opposing this bill. A copy is attached for your convenience. I attended the previous hearing of this committee in April of 2017 during which proponents of natural gas extension supported the bill, and little attention was directed to the harm the bill may do.

Let's begin with some basic introduction about propane.



PROPANE IS A CLEAN, GREEN, AVAILABLE, ALTERNATIVE ENERGY.

The same Marcellus Shale, which is producing natural gas for Pennsylvania, is also producing propane. Propane is in fact a by-product of natural gas production. Propane is expected to remain the fuel of choice in some areas of Pennsylvania in which topography and population density make natural gas extension impracticable.

Both propane and natural gas are alternative fuels. Propane powers some 10 million vehicles worldwide and some 270,000 of those are in the United States and include cars, trucks, forklifts and school buses.¹ Pennsylvania's Department of Environmental Protection recently authorized portions of the VW Mitigation Fund for use for propane-powered vehicles. Propane is a green fuel before combustion and remains environmentally-friendly thereafter. Propane will not harm the environment if released.²

Right now, Pennsylvania's propane distributors supply about 4% of the residential heating in Pennsylvania, and propane distributors have a huge impact in the agricultural industry, which is key to Pennsylvania. Propane is easily portable, and as such is a viable fuel in emergency situations.³

Propane is generally sold in gallons. In order to effectively compare the cost of natural gas and propane, to keep comparisons accurate, BTU's must be considered. One cubic foot of propane contains approximately 2,516 BTUs and one cubic foot of natural gas contains 1,030 BTUs. Hence propane packs 2.44 times the usable energy content of natural gas.⁴ That difference must be considered when price is assessed.

PROPANE IS AN IMPORTANT THREAD IN THE FABRIC OF PENNSYLVANIA'S ECONOMY

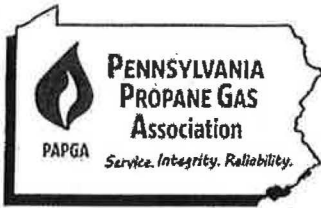
The Propane Industry is an important part of Pennsylvania's economy. Our members range from family-owned to publicly- owned, but it is not unusual to find multi-generational family

¹ https://www.thoughtco.com/propane-vehicles-available-85009?utm_term=propane+calculator&utm_content=p1-main-2-title&utm_medium=sem&utm_source=gemini_s&utm_campaign=adid-e37f2357-36c5-4ff4-b8a8-0c52a2a61df0-0-ab_tsm_ocode-33074&ad=semD&an=gemini_s&am=modifiedbroad&q=propane+calculator&o=33074&qsrc=999&l=sem&askid=e37f2357-36c5-4ff4-b8a8-0c52a2a61df0-0-ab_tsm

² Id.

³ PUC Press Release Re: Black Shy Outage Events with PUC, PEMA and Governor's office of Homeland Security Participation, http://www.puc.pa.gov/about_puc/press_releases.aspx?ShowPR=3899

⁴ Propane 101 <http://www.propane101.com/propanevsnaturalgas.htm>.



businesses, such as Kara represents, or those represented in a series of video portraits in the Pennsylvania Propane Family Portraits.⁵ Additional portraits about the Ohl, Barber and Rich families can also be accessed.⁶ Another family-owned propane business has serviced Central Pennsylvania since 1912.⁷ Pennsylvania's private propane businesses, which are not guaranteed a profit as are public utilities, employ some 1,300 employees in good-paying jobs statewide.

PROPANE IS NOT A MONOPOLY REGULATED BY THE PENNSYLVANIA PUBLIC UTILITIES COMMISSION (PUC)

Currently, the Pennsylvania Propane industry is subject to the administrative oversight of the Pennsylvania Department of Labor and Industry, in most cases, pursuant to Act 61 (2002)⁸ and its related regulations.⁹ Act 61 was an update and rewrite of the Act that advanced the law by almost one half a century in Pennsylvania. A very small portion of the industry is subject to the Pennsylvania PUC's jurisdictional line coverage under Act 127 (2011).¹⁰ However, propane is not a PUC-regulated monopoly like water, natural gas, compressed gas or electricity. To the contrary, propane does not have defined geographic territories in which it is permitted (not required) to serve customers or profit guarantees. Instead propane is a commodity subject to free market competition and pricing. If a consumer is dissatisfied with one propane company, that consumer can seek the services of another propane company in his/her geographic area. The propane company itself bears all related costs for extension of its services area, which would include brick and mortar facilities, employees, trucks, storage tanks and sometimes rail sidings.

This means that propane is an important and viable fuel in Pennsylvania and other states, yet it is generally not a fuel which is considered by the various public utility commissions around the country. Hence recommendations are made by organizations such as NARUC, the National Association of Regulatory Utility Commissioners, without consideration of the harm to the propane industry and related aspects of any state's economy.

⁵ See <https://www.papropane.com/2017/10/shaffer-family-hooversville-pennsylvania-propane-family-portrait-series-2017/e>

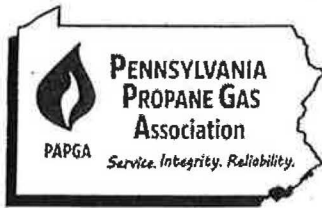
⁶ <https://www.papropane.com/pennsylvania-propane-family-portrait-series/>

⁷ <https://www.resslerpropane.com/>

⁸ The Act of Jun. 19, 2002, No. 61, P.L. 421 (Propane and Liquefied Petroleum Gas Act), 35 P.S. §§ 1329.1-1329.19).

⁹ 34 Pa. Code Chapter 13, 13.1 to 13.54 inclusive.

¹⁰ The Act of December 22, 2011, No. 127, P.L. 586 9 Gas and Hazardous Liquids Pipeline Act).



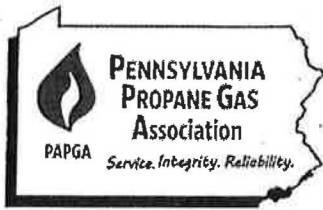
PAPGA's CONCERNS ABOUT HB 107

AS A MATTER OF PUBLIC POLICY, THE GENERAL ASSEMBLY SHOULD NOT FAVOR ONE ENERGY FORM TO THE DETRIMENT OF ANOTHER.

Simply stated, if passed, this bill would legalize unfair competition in the energy industry. Natural gas utilities would be able to use their existing monopoly power over their captive customers to finance below-market, uneconomic natural gas service to new utility customers. Why should current natural gas customers in Philadelphia, Harrisburg, Pittsburgh, or any other part of the Commonwealth have to pay increased utility bills every month to finance the extension of natural gas lines to places in our state where people choose to live beyond natural gas infrastructure? Every natural gas customer in Pennsylvania has paid, in one form or another, to obtain gas services to their business, home or property. Why should those customers pay to have natural gas lines run to someone else's business, home, or property?

It's no surprise that natural gas utilities are trying to force current customers to shoulder the burden of extension costs. The clearing, grading, and trenching of natural gas main line costs \$1 million per mile or more, and there are additional charges for the service lines that provide natural gas services to homes and businesses. The proposed legislation would make it legal for natural gas companies to offer service to new customers at a reduced rate because current customers would shoulder the burden of extension costs while seeing no benefit. Ultimately, this practice is unfair to both existing natural gas customers and every supplier of energy, propane, electricity, fuel oil, wood or other form of energy in the state.

In addition to forcing current ratepayers to pay extra fees on their utility bills to finance the extension of natural gas lines, this piece of legislation does nothing to address a true challenge for Pennsylvania residents -the need to repair thousands of miles of old pipeline in our Commonwealth. Much of the natural gas distribution infrastructure in the United States was constructed as long ago as one hundred years. Of concern are pipes made from cast iron or bare steel. These facilities are prone to leak or even to rupture. Leaks discharge natural gas into the atmosphere, spewing a greenhouse gas that is at least twenty-five times more potent than carbon dioxide. Leaks are also potential safety problems. And older infrastructure is particularly prone to failure, causing a public safety concern for all. These facts are all known to both natural gas utilities and state regulators. The U.S. Department of Energy estimates that replacing these existing natural gas pipes will cost American consumers approximately \$270 billion. Pennsylvania utilities focus should be on replacing the many miles of aging, leak-prone natural gas infrastructure in the state before utilizing ratepayer funds to make uneconomic infrastructure extensions.



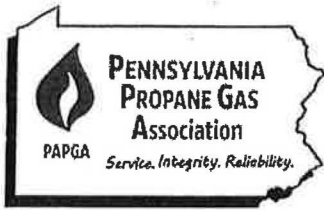
PAPGA does not oppose extension efforts by the industry funded by the industry. There is no question but that natural gas utilities have no difficulty raising either debt or equity funding on Wall Street. Nevertheless, they propose expansions that are uneconomic—that will not pay for themselves. Rather than deploying their capital in such uneconomic expansions they seek state-sanctioned subsidies from their captive customers. PAPGA just fails to understand why the General Assembly in the name of “public interest” should allow the socialization of costs for one Pennsylvania energy type, resulting in harm to other types of Pennsylvania energy including propane. It would amount to a tax on current captive natural gas customers, to benefit new natural gas customers, and more importantly, Pennsylvania’s natural gas utilities. This is hardly the level playing field that is often discussed for Pennsylvania.

PAPGA objects to the socialization of extension costs that result in the uneconomic extension of natural gas lines. Such socialization is expected to produce lines that are not economically viable for the long-run. Indeed, if the expansions were economically viable, the natural gas utility would have already deployed its own capital to take advantage of a good business opportunity.

PAPGA also notes that the natural gas distribution companies already have pilot programs in place for main extensions under a variety of names such as UGI’s GET program, the Columbia Gas Piolet Rider New Area Service Program, and other natural gas pilot programs. There is also money available for new business development programs for businesses utilizing natural gas currently in place in the Commonwealth.

HB 107 WOULD SOCIALIZE NATURAL GAS BY IMPOSING AN UNACCEPTABLE TARIFF ON NATURAL GAS RATEPAYERS.

Provisions of HB 107 would implement the policy of favoring natural gas over other forms of Pennsylvania energy. including but not limited to propane by allowing any natural gas utility to fund such extensions. With PUC approval of a petition filed by a natural gas utility, the natural gas utility could impose a charge of “2.5% of the total amount billed to customers under the applicable rates of the natural gas distribution company.” (Page 3, lines 9-12). The language of the bill as drafted includes both delivery and distribution costs. That language also includes those ratepayers who disfavor the socialized natural gas extensions or have no specific knowledge of the socialized natural gas extension. Worse yet, the bill states that the PUC may waive the cap, effectively allowing much larger tariffs on ratepayers who may have selected natural gas as a cost-saving endeavor. (Page 3, lines 9-14). Since I have a natural gas water heater, I would be subject to such a tax despite my opposition to the policy and concept of HB



107. Whether or not such a tax would pass legal muster in a court challenge is a question which hopefully Pennsylvanian's will not have to face.

HB 107 IS BASED UPON THE MISTAKEN PREMISE THAT ALL RESIDENTS OF PENNSYLVANIA HAVE A RIGHT TO NATURAL GAS HEAT.

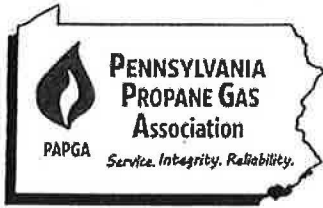
Pennsylvania residents have a need for and a right to warm their homes. However, that need can be fulfilled by a wide range of energy sources or a combination of energy sources ranging from wood, wood pellets, steam, natural gas, oil, electric, solar or other. The Pennsylvania Constitution (ART. 1, Section 27) provides Pennsylvanians with the right to "clean air, pure water, and the preservation of a natural scenic, historic and esthetic values of the environment." Further, there is no federal or Pennsylvania constitutional or statutory guarantee to any particular form of energy. Thus, no Pennsylvania resident has an absolute right to natural gas service. If any Pennsylvania resident desires to have natural gas, and mains are not close, that resident can bear the cost of such an extension, if s/he so desires. If the extension is cost prohibitive, then other Pennsylvania residents should not be taxed to extend the mains to an otherwise uneconomic location.

PAPGA PARTICULARLY OBJECTS TO SUBSIDIZATION OF APPLIANCES.

PAPGA objects to the entire concept of HB 107. Particularly objectionable, however, is Section 1 of HB 107, which adds a new section 1330(a)(2) to the PUC code, stating:

(2) A natural gas distribution company may seek authorization from the commission to recover through the distribution system extension charge the costs of rebates or buy down expenditures made by the company to reduce upfront costs of in-house piping and natural gas equipment owned by the customer.

It is my understanding that a household converting from some other form of energy to natural gas would not be able to use existing appliances because the connections for the appliances for various types of fuel are dissimilar. Hence this provision would enable residential households and commercial/industrial locations to upgrade kitchens and other appliances via socialized costs when the conversion to natural gas is made. This is simply unfair to natural gas customers and other utility users who could not do the same. Why should some natural gas ratepayer be forced to assist another Pennsylvania resident in upgrading kitchens simply because Resident A lives in an area not currently serviced by natural gas?



CONCLUSION

To recap: PAPGA maintains that HB 107 is wrong both as a matter of policy and detail. The General Assembly should not be favoring one form of Pennsylvania energy over another, and should not be expecting ratepayers to pay for uneconomic costs of extensions and upgrades of appliances. This bill places other forms of Pennsylvania energy at a strategy disadvantage and overlooks the needs of Pennsylvania to encourage diverse energy sources to meet fluctuating economic and emergency situations.

PAPGA again thanks you for considering our testimony and stands ready to answer questions and provide information both now and at any time following this hearing. We have attached in addition to the letter to Committee members, a one pager with arguments from both the propane and oil industry, and a listing of additional resources you may wish to consult. Again, thank you for your courtesy. Let us know if you have questions for me or for Kara.

Should you desire more information, please access About Propane <https://www.propane.com/about-propane/> or the Propane Education and Research Council at <https://www.propanecouncil.org/>.

We have taken the liberty of attaching to our testimony two additional documents you may find helpful in your consideration of this bill.

Respectfully Submitted,

Kathy Speaker MacNett
Legislative Counsel to the PAPGA
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Harrisburg, PA 17101
ksm@skarlatoszonarich.com
717.233.1000

Attachments: Letter to Representative Godshall dated May 11, 2017
Oppose HB 107 Sheet

May 11, 2017

Via Email Only (rgodshal@pahousegop.com)

The Honorable Robert Godshall, Chairman
Consumer Affairs Committee
Pennsylvania House of Representatives
150 Main Capitol Building
Harrisburg, PA 17120-2053

RE: HB 107

Dear Chairman Godshall:

As a courtesy, the Pennsylvania Propane Gas Association (“PAPGA”) informs you of its opposition to HB 107, which will socialize costs of extensions of natural gas lines and replacement of internal piping and appliances through the implementation of a Distribution System Extension Charge (“DSEC”).

During the hearing on April 26, 2017, representatives of some of the natural gas interests regulated by the Public Utility Commission (“PUC”) discussed the advantages of the bill for Pennsylvanians. One of those testifying even said that the bill was a “Win-Win” situation.

We respectfully disagree. Pennsylvania is the home of an important liquefied petroleum gas (“LPG”) or propane industry. That industry supplies propane for heating/cooling homes, offices and industries, providing energy on construction sites, drying crops, providing alternatively fueled vehicles including school buses and fork lifts, and tanks for outdoor grills. The Propane Industry in Pennsylvania distributes propane to more than 200,000 predominately propane heated households in every county in Pennsylvania (as of 2015), amounting to some 4% of Pennsylvania households.¹

By picking winners and losers in a highly competitive fuel industry, the bill: hurts the propane industry in Pennsylvania; injures Pennsylvanians through the deterioration of that industry which has served them (and will continue to serve them) when regulated natural companies would not and will not, *ever*; compounds the problem of Pennsylvania’s aging natural gas infrastructure by drawing limited capital away from addressing it, and unfairly burdens all customers to extend uneconomic service to a relative few; is duplicative of the recent broadening of the Distribution System Improvement Charge (“DSIC”) and the PUC’s even more recent approval of programs to extend natural gas mains to those who want them; and overlooks propane as a source of clean energy.

¹ Source: Pennsylvania Propane Market, November 2016, prepared by ICF International for the Propane Education and Research Council.
(S0305363.1)

HB 107 Will Hurt the Propane Industry in Pennsylvania

The almost \$2 billion Pennsylvania Propane Industry² is composed of a combination of small business interests, large distributors and associated suppliers. For more than a century, propane has provided clean energy to populations in Pennsylvania who otherwise would not have had a clean energy option. It employs some 1,300 people throughout the Commonwealth. Unlike natural gas, propane service is not generally regulated by the PUC. Rather, it operates on the principles of free market competition, without geographic limitation of companies. The Marcellus Shale, which produces natural gas in the Commonwealth, also produces significant amounts of propane annually.

Many of those served by propane are located in rural areas of Pennsylvania, which may or may not be benefitted by HB 107 because of the staggering costs of building a natural gas infrastructure in mountainous, hard rock, low population density areas. Propane already serves as the alternate fuel supply for many large Pennsylvania businesses, which generally rely on natural gas, should the flow of natural gas be interrupted. Propane also serves as fuel in emergency situations because it is so portable, unlike natural gas.

Propane distributors object to public subsidization of one Pennsylvania industry—the natural gas industry—to the detriment of another, Pennsylvania’s vital propane industry.

Moreover, the bill will also make it harder for other Pennsylvania industries, including oil, electric, solar, wind, and nuclear, to compete with natural gas (although upon enactment of HB 107, the electric, water, and wastewater industries will quickly shout “Me, too!” as happened with the extension of the DSIC from initial application only to water public utilities).

Deterioration of the Pennsylvania’s Propane Industry Will Injure Pennsylvanians Generally

There was discussion during the hearing about the jobs that will be added if HB 107 is enacted. Propane currently employs some 1,300 people in the Commonwealth in good paying jobs such as CDL propane drivers, propane technicians, customer service representatives, business and general managers, and sales and marketing specialists, and related support positions. Such jobs will be reduced or will be lost with unfair competition. Some propane distributors will be forced to downsize their businesses after experiencing major reductions in revenues, which will significantly reduce the jobs and taxes paid by propane dealers and their employees and suppliers.

Because propane is portable and need not be tied to an infrastructure, it is vital in emergency situations as a source of heating/cooling water and buildings. It already serves as the backup source of energy for many Pennsylvania businesses when the flow of natural gas is interrupted.

If the demand for propane is reduced substantially, the cost of propane for those who still prefer it as a clean fuel, should be expected to increase to cover the fixed costs of providing service to the diminished customer base.

² See n. 1.
{S0305363.1}

Pennsylvania's Aging Natural Gas Infrastructure Problem Will Be Compounded by Subsidizing Uneconomic Main Extensions

We understand the desire to supply cheap energy throughout the Commonwealth, especially since the Commonwealth supplies such clean energy. However, the distinction between economic and uneconomic extension of natural gas service is the very reason that some areas of Pennsylvania are currently either underserved or unserved. The National Propane Gas Association ("NPGA") has simply stated the test currently utilized by natural gas utilities for expansion purposes, which is as applicable to main extensions:

Revenues > costs = economic expansion

Revenues < costs = uneconomic expansion

Initial subsidies through HB 107 will not change the economic or uneconomic nature of any extension.

Pennsylvania already has a problem with aging natural gas infrastructure. Your efforts resulting in the enactment of the DSIC, broadening its application to natural gas, electric, and wastewater companies from its initial application only to water utilities, was justifiably intended to address the aging infrastructure problems of those utilities. Enormous amounts of limited capital will be needed to accomplish needed upgrades, but the financial impact on customers will also be enormous. Adding another surcharge to all customers' bills so that a privileged few can receive uneconomic service is simply unwise and unfair.

Cast iron and bare steel pipes are aged and prone to leak—creating both a pressing public safety issue and a climate change issue involving emissions of unburned natural gas, which is a greenhouse gas twenty-five times more potent than carbon dioxide.

According to the U. S. Department of Energy, replacing America's cast iron and bare steel natural gas distribution lines will cost approximately \$270 billion. If current natural gas customers are to be surcharged, they should be surcharged to solve these pressing safety and emissions issues that affect all Americans rather than allowing utilities to expand their markets into new service territories in order to benefit their shareholders. Propane on the other hand does not require the hundreds of millions of dollars of infrastructure improvements required for natural gas infrastructure upgrades. Infrastructure costs are borne by the propane industry, not the purchasers of propane. Adding more natural gas infrastructure on top of aging infrastructure, especially in areas where it is uneconomic, will only exacerbate this problem in the future.

Additionally, no one has a crystal ball about energy sources or prices in years to come. A decade from now, the pricing and the availability of natural gas compared to other types of energy may significantly change. Putting customer dollars into subsidized natural gas efforts may not be nearly as attractive for Commonwealth legacy purposes as it appears today, when natural gas prices are low. See the linked PUC Press Release on Modification of a Proposal due to this concern.³ Some of us still remember when "all electric" was the rage for residential heating, nuclear power was going to be "too cheap to meter," and, in 2008, natural gas was \$14.00/mcf⁴.

³ http://www.puc.pa.gov/about_puc/press_releases.aspx?ShowPR=3844

⁴ This abbreviation denotes a thousand cubic feet of natural gas.

Conversion to Natural Gas Frequently Results in Property Liens

When a homeowner agrees to pay the gas utility for an otherwise uneconomic natural gas main extension, the homeowner must pay higher rates that include amortized recovery of the cost over many years. That obligation continues and is imposed on subsequent owners of the property until the unpaid balance is fully paid, which effectively an unrecorded lien on the property imposed by the gas utility. When Homeowner B buys the property from Homeowner A, who converted to natural gas, Homeowner B also becomes the owner of the remaining debt from the conversion. Many homeowners know nothing of this unrecorded lien (and the effect on their property's value to subsequent owners) when they agree to pay for an otherwise uneconomic main extension to their property.

Propane is a Cleaner More Environmentally Friendly Fuel than Natural Gas

Propane or LPG, like natural gas, is a clean fuel. Both are cleaner than fuel oil or electricity. However, natural gas is a potent greenhouse gas if leaked into the atmosphere that is many times more powerful than carbon dioxide, while propane is not toxic or damaging and will not harm the environment if it is released into the atmosphere.⁵ Propane is not a greenhouse gas. Propane will not contribute to pollution in its unused state if released. On the other hand, natural gas will.

Conclusion

We have limited our initial comments to convey our opposition to the concept of HB 107 and subsidized natural gas main extensions. We would be happy to provide specifics on language as the discussion on HB 107 continues. This is an issue on which we respectfully disagree with your position. Should you desire any additional information, please feel free to contact me or have your staff do so. Thanks for considering our position.

Sincerely,

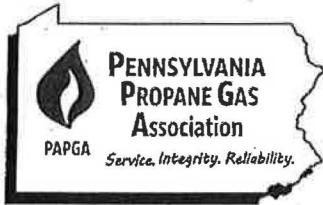


Kathy Speaker MacNett
Legislative Counsel
Pennsylvania Propane Gas Association

KSM/efw

cc: Consumer Affairs Committee Members (via email only)

⁵ Propane 101 <http://www.propane101.com/propanegreenenergyfuel.htm>.
{S0305363.1}



OPPOSE HB 107

WE RECOMMEND A "NO" VOTE ON HB 107

Here's why: HB 107...

- picks **industry winners** (natural gas) and **industry losers** (propane, oil, electric, solar, wind and other).
- **socializes the cost** of uneconomic natural gas mains by spreading costs among all the rate payers of a natural gas utility.
- allows the **PUC to approve costs** for replacement of appliances in individual homes connecting to new natural gas mains.
- creates the first time **all rate payers of the utility would pay costs** related to new gas mains without safety reasons.
- **is unnecessary.** Natural Gas Utilities are already expanding mains through pilot programs approved by the PUC and paid for by the rate payers obtaining the benefit. No one has the right to heat with natural gas v. another form of energy.

BEHIND THE SCENES

- The same Marcellus Shale, which produces natural gas, produces huge amounts of propane.
- Natural Gas heats 51% of the households in Pennsylvania, while propane heats 4%.
- Pennsylvania's propane industry accounts for almost \$2 billion annually to Pennsylvania's economy, and employs some 1,300 workers. Pennsylvania's oil industry adds even more to the Commonwealth's economy.
- Propane is an environmentally-friendly clean fuel, often used in emergency situations because it is very transportable.
- Propane operates in a competitive marketplace, without guaranteed profit or an exclusive assigned permitted, territory.
- Once HB 107 socializes Natural Gas Mains, other industries will want similar ratepayer or taxpayer support.