# Natural Gas Expansion Should Not Rely Upon Taxpayers or Ratepayers

North America has recently seen dramatic increases in energy production from shale formations. The natural gas industry has been a principal beneficiary of the shale revolution, leading to ever-increasing amounts of natural gas. But this good news has also presented a serious challenge for the wider energy industry. Rapidly increasing natural gas production has led many policy makers—premiers and legislators—to contemplate extending natural gas service to those consumers that do not have it.

New natural gas infrastructure is expensive. Gas mains can cost $1 million per kilometre or more. Costs escalate quickly in difficult terrain. These capital costs, together with the costs of operations and maintenance, must be recovered in the delivery charge paid by customers. To make economic and financial sense, the revenue stream from new customers must exceed the total cost of serving them. Given the high capital costs of providing natural gas delivery service, successful service expansions require significant population density so that the revenue stream is sufficient to cover costs. In most areas not served by natural gas—more sparsely populated areas—the economics simply do not work.

Over time, the “rate base” of natural gas utilities declines as they depreciate their assets, and, as a result, their return to shareholders decreases. This causes utilities to seek new customers and new markets. Yet in many, if not most, of those new markets the population density is not adequate to generate sufficient revenues to cover the costs of serving them. As a result, utilities seek taxpayer subsidies to fund the expansion or seek to have current natural gas customers help pay to serve new natural gas customers.

These schemes are unfair to taxpayers and current natural gas customers, who essentially are subsidizing new customers and, more importantly, utility shareholders. They are economically inefficient in that below-market prices to new customers encourage unwarranted construction. They also represent unfair competition for competing energy providers (such as electricity, propane, fuel oil, and wood) because the utility employs its government-granted monopoly power over existing customers to subsidize its market expansions into new areas.

In addition to forcing current ratepayers to pay extra fees on their utility bills to finance the expansion of natural gas lines, natural gas expansion does nothing to address the true challenge of the need to repair thousands of kilometres of old pipeline. Much of the natural gas distribution infrastructure in Canada was constructed many decades ago. These older pipes have the potential to leak or rupture. Leaks discharge natural gas into the atmosphere, releasing methane, a greenhouse gas that is at least twenty-five times more potent than carbon dioxide. Leaks are also potential safety problems, with older infrastructure that is particularly prone to failure causing a public safety concern for all.

The Canadian Propane Association (CPA) has more than 400 member companies involved in the distribution of clean-burning propane to customers. The CPA’s propane retail members compete in free and open markets with the suppliers of other forms of energy and, indeed, with each other. The CPA supports free competition among energy sources and energy retailers. The CPA opposes the uneconomic expansion of natural gas systems that rely upon taxpayer or ratepayer subsidies.

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