COMMENTS OF THE NATURAL GAS VEHICLE FUEL PROVIDERS ON PUGET SOUND ENERGY ADVICE NO. 2013-16

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I. INTRODUCTION

The Natural Gas Vehicle Fuel Providers (NGVFP)[1] appreciate this opportunity to comment on Puget Sound Energy's (PSE) Advice No. 2013-16 (Advice Letter), which requests utility entry into the competitive natural gas vehicle (NGV) refueling infrastructure market. For the reasons explained in these comments, NGVFP requests that the Commission reject the Tariff or, at a minimum, open a proceeding to fully investigate and evaluate PSE's proposal.

PSE proposes in Advice 2013-16 to provide Compressed Natural Gas (CNG) Service "*that enables fueling of natural gas motor vehicles operated by the customer from the Company's compression facilities located on the Customer's premises*." The Advice Letter could lead the Commission to the conclusion that this is simply utility business as usual: provision of monopoly gas distribution facilities to provide service at higher pressure levels. It is not. PSE is proposing to go beyond the point of traditional service demarcation and enter a competitive market to build NGV refueling stations. The CNG Service Tariff will discourage competitors from investing in the Washington NGV refueling infrastructure market, undermining the development of the very market the Advice Letter claims to promote. In the long run, the impact will come to rest on

[1] The NGVFP represents the interests of an ad hoc coalition of NGV refueling infrastructure providers including: Clean Energy Fuels Corp., TruStar Energy, Colorado-Wyoming Petroleum Marketers Association, Kulp Energy Solutions, Mansfield, Kwik Trip, and Blu LNG.

Washington consumers, who will be left with fewer and less innovative service options.

The potential to undermine market development arises from an indisputable reality: a monopoly utility has inherent competitive advantages that are not available to non-utility competitors. The utility benefits from brand equity, a well-staffed marketing department, unparalleled customer access and enviable billing and accounting systems – advantages gained on the ratepayer dollar. Perhaps most importantly, due to the relatively secure nature of the utility business, utilities enjoy a substantially lower cost of capital than non-utility competitors and have ready access to that capital. Non-utility competitors simply cannot compete with this arsenal of advantages.

If PSE's Tariff were the only way to increase NGV market penetration in Washington, it might merit the Commission's support, but it is not. Market development will be strongly influenced by a variety of factors, not simply the availability of infrastructure. A variety of factors beyond this Commission's jurisdiction are equally or more important. Key among these factors are:

- ✓ the price spread between natural gas and other transportation fuels;
- ✓ the cost of fleet conversion; and
- ✓ other state policies, incentives and mandates.

Today, these and other conditions are aligning favorably to support market development, and fleet owners and service providers are beginning to respond. It is highly likely that, without the CNG Service Tariff, PSE's target market would soon be served by non-utility competitors bringing investment dollars to Washington.

A fully competitive large fleet market should be permitted to develop naturally, without the presence of an 800-pound gorilla equipped with unparalleled competitive strength. If Puget Energy seeks to participate in this market, it should do so through an unregulated affiliate, competing on even footing with non-utility competitors. Alternatively, PSE could be permitted to use its monopoly advantages to serve market segments that are likely to be uneconomic to other service providers in the near term. NGVFP requests that the Commission open an investigation to explore these questions, taking the time necessary to put the NGV market on the right path.

II. NGVFP REPRESENTS THE INTERESTS OF NGV REFUELING INFRASTRUCTURE MARKET COMPETITORS

NGVFP represents the interest of providers of natural gas fuel for transportation in North America. NGVFP companies have operations in one or more of the following: compressed natural gas (CNG) and liquefied natural gas (LNG) vehicle fueling, construction and operation of CNG and LNG fueling stations, biomethane production, and compressor technology. NGVFP customers include the refuse, transit, trucking, shuttle, taxi, airport and municipal fleet markets. Some NGVFP members have diligently pursued opportunities in the Washington NGV refueling infrastructure market. Additionally, certain representatives of NGVFP members have participated in industry events encouraging the increased adoption of NGVs in the state.

NGVFP member have significant industry experience and through this intervention seek to assist Washington in establishing effective policies to spur the growth of the NGV market. The NGVFP members intend to continue serving the Washington market, but are concerned that they will not be able to compete against PSE's CNG Service Tariff.

III. PUGET SOUND ENERGY PROPOSES TO ENTER THE NGV REFUELING INFRASTRUCTURE MARKET, NOT SIMPLY OFFER HIGH PRESSURE GAS SERVICE

PSE has labeled its proposal "Optional Gas Compression Service" and refers to the service throughout the Advice Letter as the "CNG Service Tariff." The title and advice letter suggest that this service is a natural complement to its traditional scope of service. The scope of services and equipment provided under the CNG Service Tariff, however, place the utility squarely in a new, competitive market: the NGV refueling infrastructure market.

A. CNG Service Represents a Departure from Utility Business as Usual

The CNG Service Tariff masquerades as a typical utility service offering. Instead, the service will be provided in a competitive market and will reach beyond the traditional point of demarcation between the utility and customer facilities. PSE is, for all practical purposes, seeking to construct, own and operate filling stations for natural gas vehicles.[2] Looking at it another way, granting the Advice Letter would be akin to allowing PSE to sell, own and operate household appliances, like a clothes dryer, or industrial equipment that uses

[2] *See* PSE's Tariff Revision UG-131589.

natural gas. The provision of competitive goods or services is simply not an appropriate role for a monopoly utility.

The CNG Service Tariff will operate differently from other monopoly utility services provided by PSE. PSE's Rule 13 states:

> *All fuel line piping and equipment, except company-owned equipment, beyond the company's meter and its accessories, necessary to utilize service furnished by the company, shall be installed by and belong to the customer and be maintained at the customer's expense. Any loss or damage due to leaks beyond the meter is the responsibility of the customer.*[3]

The Rule contemplates that only "*meters and service piping*" may be owned by the company on the customer premises. Like services in other states, Rule 13 suggests that there is a "customer" side of the meter and a "utility" side of the meter. As demonstrated in Figure 1 below, the equipment that PSE proposes to provide under their Tariff Revision includes all of the equipment installed on the customer side of the meter, including all of the equipment required to "utilize" the traditional gas service.

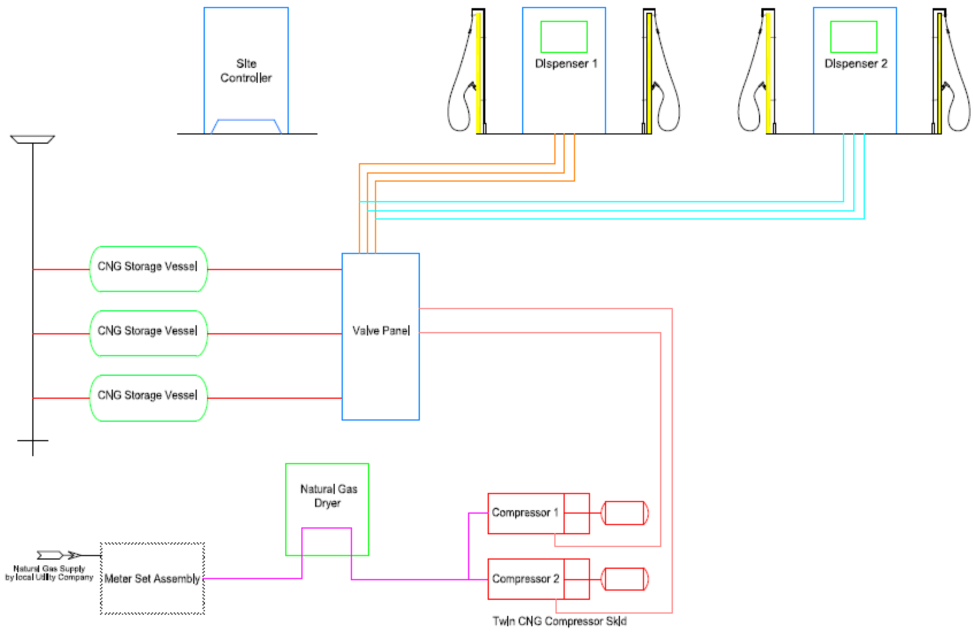
B. The Market at Issue is the NGV Refueling Infrastructure Market

The CNG Services Tariff is about more than just providing gas at higher pressures; it involves all infrastructure required to operate an NGV refueling station. Natural gas vehicles require the commodity provided by natural gas utilities like PSE to be compressed before being dispensed into a vehicle. Compression of natural gas for refueling usually incorporates a mix of equipment including a natural gas dryer, compressors, CNG storage facilities, connecting

[3] PSE Rules and Regulations, Rule No. 13.

pipes and dispensers. Figure 1 illustrates the compression process and the required equipment.

Figure 1: A NGV Refueling Station



After the equipment has been installed, the station must be operated and maintained.   Third-party service providers typically provide operations and maintenance (O&M), which include scheduled and unscheduled maintenance. The service provider that provides the O&M service may or may not be the same service provider that designed and constructed the station.

C. PSE Would Offer a Single Bundled Product, Including All NGV Station Equipment and Services for an NGV Refueling Station

The Advice Letter requests authority to supply, design, install and own nearly the entirety of an NGV station; it also requests authority to bundle with these services the associated O&M services. PSE explains:

> *The CNG Service shall be provided to Customer solely by facilities owned and maintained by the Company. CNG Service will only be available if the*

Company is able to obtain facilities and contract for operation and maintenance of those facilities that are necessary to provide CNG Service.[4]

PSE lists the equipment to be provided and owned by the utility as part of their CNG Service Tariff. This list includes all of the equipment reflected in Figure 1. With all of the equipment and O & M provided, PSE's CNG Service would be positioned as "one stop shopping" for utility customers.

D. The Scope of PSE's Service Places the Utility Squarely in the Competitive Natural Gas Infrastructure Market

PSE is seeking the authority to seize the same NGV natural gas infrastructure opportunities currently being sought by NGVFP members and other potential competitors in Washington. Participants in the NGV refueling infrastructure market can provide their customers with a number of different services. A service provider could (i) provide design and engineering services; (ii) procure and supply station equipment; (iii) procure or provide O&M services; (iv) serve the role of a "general contractor" by providing a package of equipment and services; (v) package the sale of natural gas together with the NGV refueling infrastructure; or (vi) manufacture station equipment. These types of service offerings are typical for non-utility service providers.

In addition to its role providing the natural gas commodity, authorization of the CNG Service Tariff would allow PSE to engage in all of these activities except for the manufacturing of station equipment.[5] The utility's request thus

4 CNG Services Tariff at Original Sheet No. 154,

5 Approval of CNG Services Tariff would allow PSE to provide end to end natural gas service from the commodity to the gas dispenser. PSE is the utility provider of the natural gas commodity to be compressed, sorted and dispensed at the NGV refueling facilities.

must be seen as a request to fully enter a competitive market, departing from the typical scope of monopoly services. The market entry would be far from typical, however, as PSE brings to the market inherent competitive advantages not available to non-utility competitors.

IV. APPROVAL OF THE TARIFF WILL IMPAIR DEVELOPMENT OF WASHINGTON'S NATURAL GAS VEHICLE INFRASTRUCTURE MARKET

A. Washington's Natural Gas Vehicle Market is Still in its Early Stages

Washington's NGV refueling market is in its infant stages. The market in Washington resembles the state of NGV infrastructure in California 15 years ago, not California today.

- ✓ Washington has approximately 24 compressed natural gas vehicle refueling stations, including 7 with public access. Blu LNG has one LNG station there.
- ✓ There are only 3 active competitors currently in the CNG market in Washington: Clean Energy, Trustar Energy and Clean N' Green.
- ✓ PSE has 24 NGVs in its fleet, and has 1 NGV refueling stations for its own use that is operated by Clean Energy and open to the public.

The growth of California's NGV refueling market illustrates the benefits of limiting a utility's scope of participation in the NGV infrastructure market.

- ✓ Today, California has approximately 596 natural gas vehicle refueling stations, including 158 with public access.
- ✓ According to the California DMV, California has about 30,000 NGVs on the road.

- ✓ There are currently 70 competitors in California's market and that number is quickly growing.

California's pace of market development can be attributed to several factors. California has spurred market growth through a general policy commitment to a competitive NGV refueling infrastructure market. In 1990, acting in response to air quality concerns, the California Legislature adopted California Public Utilities Code §740.3 directing that:

> *The commission, in cooperation with the State Energy Conservation and Development Commission, the State Air Resources Board, air quality management districts and air pollution control districts, regulated electrical and gas corporations, and the motor vehicle industry, shall evaluate and implement policies to promote the development of equipment and infrastructure needed to facilitate the use of electric power and natural gas to fuel low-emission vehicles.*[6]

In 1995, the California Public Utilities Commission (CPUC) evaluated the merits of utility participation in the NGV refueling market. The CPUC voted to prohibit the utilities from participating in that market, going so far as to require SoCalGas to divest its NGV station assets.[7] The CPUC took this action for two reasons. First, it was concerned that the program would be subsidized by non-participating ratepayers. Second, it recognized the importance of letting a competitive market develop in a way that would not allow the monopoly utility to dominate with all of its inherent advantages. Considering the growth of California's NGV refueling market illustrated above, the policy has worked for more than 15 years.

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[6] Cal. P.U.C. §740.3.

[7] D.95-11-035

Specific policy directives including the adoption of fleet vehicle rules by the South Coast Air Quality Management District (SCAQMD) also helped to spur the California NGV market. The SCAQMD's fleet rules generally mandate the conversion of vehicles that provide a public service and consume high volumes of gasoline or diesel to alternative fuels, such as CNG and LNG. The rules were designed to "*gradually shift public agencies and certain private entities to lower emissions and alternative fuel vehicles whenever a fleet operator with 15 or more vehicles replaces or purchases new vehicles*."[8] The adoption of these rules established a new customer base for AFVs generally and NGVs specifically, and encouraged new NGV refueling infrastructure providers to enter the SCAQMD service territory.

Washington's NGV refueling infrastructure market has lagged behind California, in part, because Washington has not adopted specific policies encouraging NGV adoption. Washington has not protected the NGV refueling infrastructure market as the California PUC did, nor has it adopted policies, like that of the SCAQMD, specifically encouraging increased adoption of NGV. Like California, Washington passed a general statute supporting NGV:

> *Commission shall identify barriers to the development of CNG refueling stations and shall develop policies to remove such barriers. Commission shall consider providing rate incentives to encourage natural gas companies to invest in refueling infrastructure.*[9]

The Washington statute was passed in 1991, and the nationwide market for NGV infrastructure was very different than it is today. While natural gas company investment may have been the best means to encourage NGV at that

8 See https://www.aqmd.gov/tao/FleetRules/.
9 RCW 80.28.290

time, other incentives may better suit the market today. This general statute is not a mandate requiring the Commission to approve PSE's proposed tariff. The statute merely directs the Commission to consider providing rate incentives, and the Advice Letter is an opportunity to open a full proceeding to consider how to best encourage the NGV refueling infrastructure market. The NGVFP submits that considerations should include the impact of the CNG Services Tariff on competition and the limitation of the CNG Services Tariff as outlined in Section VI below.

The Advice Letter points to The State Energy Strategy 2012, stating, "*there is comparatively little use of CNG in Washington by State fleets…The availability of fueling infrastructure is a key concern to the further deployment of CNG vehicles*." While Washington would benefit from an increase in CNG infrastructure, the State Energy Strategy does not explicitly state that utilities should be the provider of the infrastructure. Washington law recognizes that "Washington state greenhouse gases are substantially caused by the transportation sector…."[10] This is true but it does not necessarily follow that utilities should be the driving force for added alternative fuel stations. In fact, if utilities were allowed to build CNG stations, the CNG market would decline because private companies would not compete with PSE. Rather than approving the Advice Letter, which would have the ultimate impact of discouraging NGV refueling infrastructure growth, the Commission should provide incentives and a policy environment encouraging third party competition.

[10] RCW 80.80.005

As discussed in Section IV.B. below, factors beyond statewide policy impact the growth of NGV refueling infrastructure. A policy that discourages a competitive NGV refueling market, however, is more likely to singlehandedly discourage the development of the competitive market as discussed in Section IV.C. Advice No. 2013-16 represents an opportunity for the Commission to make a strong policy statement supporting NGV market growth in furtherance of Washington's State Energy Strategy.

B. Approval of the CNG Services Tariff Will Not Spur Growth of the NGV Infrastructure Market

PSE suggests that the availability of a CNG Services Tariff will have significant potential to influence the growth of the NGV market.[11] The proposal fails to acknowledge, however, that the CNG Services Tariff, alone, will not be the driving factor encouraging market growth. The most significant factor impacting the growth of NGV markets is the price spread between conventional gas and natural gas prices – a spread that has seen considerable change in the last few years. Other key factors include:

- ✓ Availability of attractive and affordable natural gas vehicle options;
- ✓ The prices of NGVs from original equipment manufacturers as compared to conventional vehicles;
- ✓ The economic climate, which determines the availability of investment capital for fleet owners to acquire new vehicles;
- ✓ The age of existing fleet vehicles or the need for additional vehicles, factors that also affect the economics of making a fleet investment;

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[11] Advice No. 2013-16 at 2. PSE states "*[b]y increasing options for customers to have natural gas compression facilities on-site, where the customer's vehicles return at the end of the day to refuel, customers can increase their use of natural gas in transportation, traveling more miles on low-cost, low-emission natural gas*."

- ✓ Cost and development of other AFV including electric vehicles; and
- ✓ Government policies and incentives.

Without alignment of these factors, no changes in the NGV infrastructure market – whether by competitors or the utility – will spur market growth. For example, if a potential NGV customer cannot afford to replace its fleet of vehicles, the availability of infrastructure will not alter the economics of that customer's decision.

These factors have not previously aligned in a manner that supported increased adoption of NGV refueling infrastructure, but the timing may now be ripe for NGVs. The price spread between CNG and gasoline historically has not supported the use of NGVs; current conditions, however, make NGV investments economic. Five years ago the spread between the two fuel choices was 13 to 1 ($106/barrel for crude oil; $7.27/mmBtu for natural gas); today the spread is 28 to 1 ($106/barrel for crude oil; $3.81/mmBtu for natural gas).[12] There are an increasing number of NGV options, and the economic environment nationwide is slowly improving. The confluence of these factors has been encouraging companies to enter the national NGV refueling infrastructure market. Currently, there are over 80 companies nationwide participating in this market, and as long as Washington maintains a favorable competitive market, the barriers of entry are such that any of these companies could enter the Washington market at any time. If the Commission chooses to approve the CNG Services Tariff for the

[12] *See* U.S. Energy Information Association website: (http://www.eia.gov/petroleum/marketing/monthly/pdf/pmmtab1.pdf) and (http://www.eia.gov/pub/oil_gas/natural_gas/feature_articles/2009/ngyir2008/ngyir2008.html).

reasons outlined in Section IV.C. below, new competitors are likely to dedicate their capital and human resources to other markets protected from such utility participation.

C. Approval of Tariff UG-131589 Will Harm the Growth of a Competitive NGV Infrastructure Market

PSE's entry into this competitive market, with all of its inherent monopoly utility advantages, will impair the natural development of this growing industry by driving out investment by non-utilities. If one market participant has a clear advantage in a competitive market, new entrants are discouraged from making the investment of time and money necessary to compete effectively. If competitors choose not to enter a market, or leave a market, the prevailing market participant, in this case the utility, will be left with market power. This leaves customers without choices and vulnerable to higher prices.

The advantages PSE has as a monopoly utility in a competitive market are obvious.

- ✓ PSE has highly beneficial access to a sizable potential CNG customer base, and this access is not equally available to other competitors. Access to the potential customer base gives PSE an advantage in targeting potential customers of the CNG Service and provides an established communications and marketing platform. As the supplier of the natural gas commodity or transportation, PSE has knowledge of all of the current CNG customers.

- ✓ The utility has detailed information about potential customers that most definitely is not available to other competitors. This includes historical sales data and existing distribution facility design.

- ✓ NGVFP members and other companies supplying NGV refueling infrastructure must contact PSE to obtain information on the pressure in the natural gas pipeline before providing a quote to a potential customer.

If the utility becomes a competitor, it will have immediate and direct knowledge of other competitors' marketing leads that it can leverage to its own advantage by circumventing private fuel providers and poaching their customers.

- ✓ The utility can employ its existing ratepayer-funded administrative infrastructure for marketing, billing and services; competitors have no ratepayer funding to lean on and must fund these activities with their shareholders' dollars.

- ✓ The utility can gain access to the capital needed to fund the program at a cost that is as much as 50% lower than the cost of private capital, with an authorized rate of return of 7.8%. All other things being equal, this advantage alone puts competitors in a losing situation. In addition, the cash flow and existing financing agreements of a large public corporation like PSE allow it to easily access the capital needed for infrastructure development. For its competitors, obtaining the needed capital would likely require a significant new financial commitment.

- ✓ PSE can benefit from the brand equity that it has established in its position as a monopoly provider of natural gas. PSE's monopoly position has allowed it to build its relationships and reputation with its current customers.

By authorizing the Tariff, the Commission would be allowing a utility to use its monopoly advantages in its regulated business to create an environment toxic to private investment in the NGV refueling market. Private companies considering entering the competitive Washington market will likely determine that they cannot effectively compete with PSE with its many advantages and will opt not to enter the market. In the long run, limiting the flow of capital into Washington's NGV refueling market will necessarily restrict growth and options for consumers while obligating the non-participating ratepayer to subsidize inefficient investments in NGV fueling infrastructure.

V. CNG SERVICE IS NOT UNIQUE AND PSE FAILS TO DEMONSTRATE THAT A CNG SERVICE IS NECESSARY TO SERVE THE NGV INFRASTRUCTURE MARKET

A. Other Market Participants Can Provide the Same Service to Washington Customers

PSE misleads the Commission in its characterization of the market. The Advice Letter states: "*[CNG Service Tariff] will provide customers with the opportunity for a turn-key solution for providing the gas pressure required for vehicle fueling without a significant upfront capital investment into compression facilities by the customer*."[13] This statement fails to reflect that some NGVFP members offer NGV refueling infrastructure options including turn-key CNG refueling services at no upfront cost to the customer, recovering capital expenses over time through a slight raise in the price at the pump.

In fact, NGVFP members and other competitors can offer Washington customers more flexibility than PSE's CNG Service proposal. A current customer of an identified PSE rate schedule electing to take service under the Tariff will have PSE provide all of the planning, design, and construction of the refueling station as well as all maintenance of the station.[14] This is, of course, in addition to PSE providing the natural gas commodity. A customer of an NGVFP member on the other hand may have their NGV refueling infrastructure provider:

- ✓ Build, maintain and own the station leasing it to the customer;
- ✓ Build and maintain a facility owned by the customer;
- ✓ Build a facility for the customer with a third party providing maintenance;

[13] Advice No. 2013-16 at 2.
[14] CNG Services Tariff at Original Sheet No. 154-H.

- ✓ Design a facility for the customer that a third party builds and maintains; or

- ✓ Provide operations and maintenance service on a customer facility designed and built by a third party.

There are over 80 companies nationwide providing some level of NGV refueling market infrastructure services, and certain of these companies stand ready to provide these services in Washington -- a point not addressed by PSE in its Advice Letter.

VI. THE TERMS OF THE TARIFF AND CONTRACTS ARE ANTICOMPETITIVE AND MERIT FURTHER SCRUTINY

In its Application seeking authorization for CNG Services, PSE includes the CNG Services Tariff and Compression Services Agreement that will dictate the terms of the service. Many of the proposed terms are not in the best interest of the customer or competition, potentially restricting information sharing and creating uncertainty.

A. The Financial Terms Create Uncertainty Over Termination Consequences

CNG Service customers under PSE's contract will pay the full cost of the NGV refueling infrastructure equipment, but despite paying for the equipment will not own the equipment at the end of the contract. The Advice Letter proposes that PSE will own all CNG equipment.[15] CNG Services Tariff customers will pay either a fixed monthly charge or a volumetric charge designed to capture "*the full*

[15] CNG Services Tariff at Original Sheet No.154.

incremental costs associated with the provision of this service to their site."[16] At the end of the contract term, PSE will remove all CNG equipment; in the event of termination of the contract the customer must pay out the remainder of amounts due under the contract and PSE will remove the CNG equipment.[17] Even though the customer has paid the full cost of the equipment, PSE owns the equipment and the customer is left with nothing. In the event of early termination, PSE states that it will refurbish the equipment suggesting it will be used for the benefit of another customer, but does not indicate the disposition of equipment removed after a full contract term. PSE also does not clarify how redeployed equipment will be priced and if equipment is paid for twice whether the ratepayers or shareholders will benefit.

B. Controls on Ratepayer Cross-Subsidies are Not Apparent

It is not clear from the face of the Advice Letter or the CNG Services Tariff that PSE has ensured that the CNG Service will not be cross-subsidized by utility ratepayers. The Tariff states that "*customers served under this service will pay the full incremental costs associated with the provision of this service to their site, the addition of this optional service offering should have no negative cost impact on other ratepayers*."[18] The Advice Letter and CNG Service Tariff provides no demonstration that ratepayers will in fact be protected and that the service is self-supporting. The Commission should require PSE to make such a showing.

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16 Advice No. 2013-16 at 3.
17 CNG Services Tariff at Original Sheet 154-H.
18 Advice 2013-16 at 3.

VII. WASHINGTON SHOULD TAKE THIS AS AN OPPORTUNITY TO DEVELOP A RECORD AND ESTABLISH NGV POLICY

There is no doubt that the CNG Service Tariff presents a complicated question, and the answer will have long-term effects on the development of the natural gas vehicle market in Washington. Complicated questions merit close examination and public review. NGVFP requests that the Commission undertake a thorough, public review of this issue before reaching its decision. We request that the Commission reject this advice letter at this time, and open an investigatory docket to develop a record as to the needs of the public for this service, what resources are currently available, and how best to develop a competitive market to meet those needs. Currently the Advice Letter and its attachments provide an inadequate record upon which the Commission can make a decision on the CNG Services Tariff. The information available to the Commission has all been provided by PSE acting in its own best interest to exclude other market competitors. Before making any decision on the CNG Services Tariff, the Commission should open a proceeding to better explore the NGV Refueling infrastructure market and investigate Washington's specific proposals. A proceeding on the issue should seek input from other market participants and explore the concerns regarding PSE's proposal highlighted in Section VI above.

In addition to providing an opportunity to better address the PSE proposal, opening a proceeding will allow the Commission to study the state of the market and develop a policy position that will best encourage growth.

VIII. TO BEST ENCOURAGE NGV REFUELING INFRASTRUCTURE GROWTH THE TARIFF SHOULD BE REJECTED OR AT A MINIMUM LIMITED TO CERTAIN UNECONOMIC MARKETS

A decision approving the CNG Services Tariff would push competitors even further from the Washington market and expose ratepayers to unnecessary risk of cross subsidies. NGVFP recommends that the Commission reject Advice No. 2013-16, leaving the Washington NGV refueling infrastructure market fully competitive. Rejection of the CNG Services Tariff sets a policy precedent that will encourage growth of the Washington NGV market similar to what has been seen in California.

PSE quotes a part of the National Association of Regulatory Utility Commissioners (NARUC) AFV Resolution as a basis for being allowed to compete in the Washington CNG market.[19] However, a recent resolution of the National Association of State Utility Consumer Advocates (NASUCA) advocates for the opposite. The resolution states in part:

> *BE IT FURTHER RESOLVED that gas distribution utilities should not be allowed to provide any services or investments for natural gas fueling infrastructure, beyond the distribution of natural gas, unless that function is performed through an unregulated affiliate governed by appropriate affiliate transaction rules. Such services and investments should include:*
> • *The provision of compression equipment for refueling stations on customer property or downstream of the customer meter….*[20]

NGVFP fully supports entry by an unregulated affiliate of PSE into the market, as NASUCA contemplated. Participation of a PSE affiliate allows PSE to leverage its significant experience as a natural gas infrastructure provider, while preventing it from leveraging its utility advantages.

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[19] *See* Advice No. 2013-16 at 3-4.

[20] National Association of State Utility Consumer Advocates, Resolution 2013-04, available at: http://www.nasuca.org/archive/res/index.resoltuions.php#gas.

While NGVFP maintains that the Commission should reject Advice No. 2013-16, the anticompetitive effects of HPGS can be mitigated by allowing PSE to use its utility advantages narrowly in a manner that will not harm the growth of competition. As an initial matter, the Commission should encourage PSE to maximize the Company's use of NGVs and to develop NGV stations as necessary to support those vehicles on their *own* property. In addition, while the large fleet NGV refueling infrastructure market will be adequately served by competitive market participants, there may be certain markets that remain underserved because they are uneconomic. PSE is in the position to leverage its financing advantages to serve these otherwise uneconomic markets, leading to incremental market development. As a starting point for exploring underserved markets, NGVFP submits to the Commission that potential underserved markets may include the home NGV refueling business, School District bus fleets, and non-proprietary, low volume municipal fleets (excluding, for example, port, airport, transit and refuse properties). NGVFP encourages the Commission to further investigate which markets are uneconomic and will provide the Commission whatever support it may need.

PSE's Advice No. 2013-15, the Electric Vehicle Charging Incentive, provides a clear example of a beneficial utility role in the alternative vehicle fuel market. The Charging Incentive tariff promotes residential customer use of electric vehicles by providing a substantial financial incentive toward the cost of EV charging equipment and installation. Unlike the CNG Service Tariff, the tariff does not place PSE in the position of owning and maintaining the equipment; in fact, it requires that the charger "*must be installed behind the existing PSE electric service at the principal charging location*."[21] The tariff simply uses the utility's monopoly position and customer relationships to distribute financial incentives to customers, regardless of their choice of equipment or installer. A similar incentive to support residential customers' adoption of NGVs for passenger use would be a good starting point for the Commission's NGV policy.

If the utility is not satisfied with serving markets that can benefit most from utility advantages, such as its low cost of capital, the Commission must ask why. It should not grant the utility market entry as a profit-making venture for shareholders; if this is a profit-making venture, it should be undertaken by an affiliate. It is an appropriate use of utility market power, however, to serve underserved markets, advancing the public interest in a way that economically driven competitors cannot.

IX. CONCLUSION

For all of the foregoing reasons, NGVFP encourages the Commission to reject Advice No. 2013-16 or, at a minimum, open a proceeding to explore the appropriate role of the utility in the NGV infrastructure market.

[21] Advice No. 2013-15 (Aug. 28, 2013), p. 1.

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