April 13, 2013

Testimony in opposition to:
LD 1187, "An Act to Create the Maine Energy Cost Reduction Authority"
LD 1262, "An Act to Reduce Energy Costs"

Senator Cleveland, Representative Hobbins, and members of the Joint Standing Committee on Utilities, Technology, and Energy, my name is Jon Murray and I submit this written testimony to you in opposition of LD 1187 & LD 1262 as a representative of Murray Oil & Propane as well as an interested and concerned lifelong resident of central Maine. Our Company is an 80+ year, 4th generation, family owned employer of 45 Mainers, and provider of heating oil, propane, electricity, and motor fuels products to thousands more. I did attend the public hearing on Thursday April 4th, unfortunately I had to leave before my opportunity to testify came. Please accept my written comments and feel free to reach out to me with any questions.

The prevalence of poverty, and high energy prices in Maine are very real and are a tragedy. You don't get any closer to the front lines of that issue than Maine's home heating industry is. But using those facts to add dramatic flair to the supporting of bad legislation is something you must see through. Maine's high electricity prices do not exist because there isn't cheaper electricity available. They exist because of exactly the type of long term contracts which these bills suggest! Putting ratepayer and taxpayer capital at risk with long term contacts has a poor track record in Maine as you have been reminded of repeatedly. If natural gas, or cheaper electricity are desired by Mainers, and the economics of bringing those products into Maine are such that there can be simultaneous savings to the consumer, and profit to the provider, then the private sector should, and will solve that riddle. The fact that government simply isn't able to have the same level of accountability as the private sector does, makes it very bad policy for the government to undertake such long term and potentially expensive commitments. A January 23rd Boston Globe article reports on the 2 LNG import terminals that were privately built on Boston's North Shore at a cost of $350-400 million each, and were shut down soon after being built due to the already changed Natural Gas markets.[1] This is a classic example of how markets can change a lot faster than large and expensive capital projects can go from concept to existence.

Long term contracts are often referred to in the context that they eliminate or reduce risk, but they rarely do. They simply shift "knowns" and "unknowns", and shift risk. These bills are based on the current relationship of natural gas, oil, and electricity prices. We may or may not all agree on how they will change, but I'm sure we can all agree that they *WILL* change. The "basis/differential" portion of natural gas prices, and their relative spikes seem to be one of the targeted solutions of these bills. That portion of the price is a regional issue. While natural gas has been around for many years, drilling technology (and the subsequent reduction in domestic prices), and emerging global demand, have created a rapidly evolving yet immature market that is sure to change. As it does, and as natural gas becomes more of a global commodity, it is likely that the supply/demand premium that comes & goes in the "basis/differential" now, will shift to the base reference price (Henry Hub for example). This principle is why we have such high oil prices. With all due respect to Mr.Braxton and his testimony that oil prices are subject to the whim of how much Saudi Arabia decides to pump, I would disagree. Oil prices are high because the market has become very global, and because every barrel of oil is bought and sold too many times from the time it is pumped out of the ground until it is burned thanks to rampant speculation from the financial sector. There is no shortage of oil, domestically or globally. Rest assured that as natural gas becomes more of a global commodity, and its presence increases, it will be subject to the same manipulating forces that affect oil prices now. Ample domestic supply will be irrelevant. If someone across the pond is willing to pay $100 per unit for natural gas, then US consumers will have to be willing to pay a comparable amount to keep it here. An article by Alex Wilson posted 2/27/13 on www.GreenBuildingAdvisor.com [2] was one of numerous sources that I found stating essentially that regional natural gas prices are "artificially" low right now, and that its only a matter or time before the laws of market physics raise them.

During Mr. Py's testimony at the public hearing, Representative Dunphy read from a list of products that members of MEMA supply to Mainers and asked if any of *those* products do not also receive government subsidy. As one of those members, I'd like to offer a perspective. In the context of the subsidies that these bills suggest, the answer is no. Our bulk plants, delivery vehicles, transports, and other infrastructure required for our operation required sizable investment and risk. Local, state, or federal government did not help us purchase those in a manner that is inequitable to other energy sources. Nor did they offer to legislate all consumers (not just our customers), or even taxpayers to help make the payments if we are unable to achieve enough sales or margins to do so. As far as I know, the only subsidies provided to the energy products that MEMA members provide may exist at the Federal level to the raw producers of those products, but not to the local family owned businesses that provide them to Mainers. The point of these subsidies is scarcely relevant to the point of poverty and high energy costs in Maine.

There was some allusion during the public hearing that laying more natural gas pipes would be beneficial for Maine jobs. From the standpoint of home heating, when heating oil or propane are replaced by natural gas or electricity there would have to be a net loss of jobs. The distribution of our products does have a labor component (as well as a level of personal customer service) that natural gas and electricity simply don't have. I can't believe that jobs lost by delivery drivers, bulk plant operators, and all the associated residual jobs will be made up for by the jobs provided with these other energy sources. I would also point out that the many thousands of dollars per truck in sales & excise tax revenue, tires, repairs, etc. will be lost. Once pipeline construction is finished, so are most of the jobs.

In closing, I applaud Representative Fredette for bringing further awareness to the serious problems of poverty and high energy costs in Maine, and for the extensive work that he and his team have put into these bills. We absolutely need to continue working toward practical solutions that can boost Maine's economic activity and the livelihood of its citizens. Energy Costs are undoubtedly a big part of that. Unfortunately, precedence and prudence suggest that long term risky contracts and additional bureaucracy are not the solution.

[1] http://www.bostonglobe.com/business/2013/01/23/offshore-gas-terminals-mass-bust-far/Qu8dyZzF6yBNAsDNaTT1ZJ/story.html

[2] http://www.greenbuildingadvisor.com/blogs/dept/energy-solutions/will-natural-gas-be-our-domestic-energy-savior