

NSURB NSPI

EXHIBIT#

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PROCTER & GAMBLE STATEMENT No. 2

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

#15360

Box 1

File 3

THE PROCTER & GAMBLE PAPER  
PRODUCTS COMPANY

v.

PENNSYLVANIA GAS & WATER COMPANY  
(GAS DIVISION)

DOCKET No. R-901699C002  
(Remand)

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DIRECT TESTIMONY  
OF  
JATINDER KUMAR  
ON BEHALF OF  
THE PROCTER & GAMBLE PAPER PRODUCTS COMPANY

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5360

SUBMITTED: May 1991

1 A natural gas utility shall provide  
2 transportation service in a manner and  
3 according to terms which maximize system  
4 throughput.

5 To maximize system throughput, Procter & Gamble should be  
6 allowed to utilize PG&W's pipeline capacity as a  
7 transportation customer on a permanent year-round basis.

8 COMPETITION IN THE GAS INDUSTRY

9 Q IN THE PREVIOUS SECTION, YOU STATED THAT UTILITY REGULATION  
10 SHOULD ENCOURAGE COMPETITION. WHY SHOULD COMPETITION BE  
11 ENCOURAGED?

12 A Competition is desirable in all sectors of the economy,  
13 including gas utilities. Competition results in increased  
14 efficiency, flexibility and lower costs. In the instance of  
15 natural monopolies, Dr. Alfred E. Kahn stated, in his  
16 earlier cited book, that the "...single most widely accepted  
17 rule for the governance of the regulated industries is to  
18 regulate them in such a way as to produce the same results  
19 as would be produced by effective competition," (page 17,  
20 Volume I). Regulators, of course, can do this by  
21 substituting competitive forces, where possible, consistent  
22 with their mandate to regulate public utilities.

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1 Dr. Kahn goes further to state:

2 The decision to regulate never represents a  
3 clean break with competition. No regulatory  
4 statute to the author's knowledge completely  
5 abandons reliance on competition as one  
6 guarantor of good performance. The  
7 determination of the proper mixture of  
8 competitive rivalry and government orders in  
9 the formula for social control is or ought to  
10 be the central, continuing responsibility of  
11 legislatures and regulatory commissions.

12 The question is not simply one of how much  
13 competition to allow--how much freedom of entry  
14 or independence of decision making with respect  
15 to price, investment, output, service,  
16 promotional effort, financing, and the like.  
17 It is a question also of what, in the  
18 particular circumstances of each regulated  
19 industry, is the proper definition, what are  
20 the prerequisites, of effective competition  
21 (pages 113 and 114, Volume II). (Footnotes  
22 omitted.)

23 Q WHAT ARE THE ADVANTAGES OF COMPETITION?

24 A The advantages are obvious--increased efficiency and lower  
25 costs to consumers. FERC expressed a similar opinion in the  
26 City of Frankfort, KY v. Kentucky Utilities Company, 20  
27 FERC, ¶61,173, 61,346 (1982), reh'g denied, 20 FERC, ¶61,399  
28 (1982), when it stated:

29 We cannot think of a more competitive way to  
30 promote competition than to create an actual  
31 competitive market. The benefit of a  
32 competitive market is that it enhances  
33 efficiency. In a competitive market, a seller  
34 will lose sales if it has high costs or

1 attempts to charge a price higher than the  
2 market price. Thus, competition penalizes a  
3 seller that is inefficient or has an  
4 unreasonable pricing strategy. Consumers, in  
5 turn, benefit because the improvements in  
6 efficiency lead to lower prices. (Emphasis  
7 provided.)

8 Thus, it is very clear that regulators have no obligation to  
9 encourage inefficiency by providing a shield of "regulation"  
10 to regulated utilities.

11 In its Order 436, FERC stated:

12 In this way, regulation will allow competitive  
13 forces to operate in those areas where Congress  
14 has determined they will better protect the  
15 public interest than traditional utility-type  
16 regulation, while retaining the traditional-  
17 type regulation in those areas where  
18 competitive forces have been found inadequate  
19 by the Congress.

20 NEED FOR AND ADVANTAGES OF TRANSPORTATION

21 Q PREVIOUSLY YOU DISCUSSED THE ADVANTAGES OF COMPETITION. HAS  
22 COMPETITION BEEN ENCOURAGED IN THE GAS INDUSTRY?

23 A After the implementation of the Natural Gas Policy Act  
24 (NGPA) in 1978, natural gas prices increased significantly.  
25 These increased prices resulted in increased gas supplies  
26 and reduced gas consumption. The gas supply shortages of