

# Scope of Study

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## CONNECTICUT'S REGULATION OF PROPANE

### AREA OF FOCUS

The study will examine Connecticut's regulation of propane and the propane industry and determine if the current rules best serve residents. In particular, the study will evaluate the existing regulatory structure for propane with respect to consumer rights, safety, and pricing. The study, to be completed by May 1, 2011, will also examine the feasibility of maintaining the container law, regulating pricing, and expanding contract disclosure and other requirements.

### BACKGROUND

Approximately 30,000 Connecticut households use propane for heat, with another 200,000 using it for cooking, small heaters, or fireplaces, according to the Department of Consumer Protection. Propane is most often used in western Connecticut and rural areas that do not have access to natural gas. Propane prices, like home heating oil prices, are not regulated by the Department of Public Utility Control, unlike the prices of natural gas and electricity.<sup>1</sup>

Propane, also known as liquefied petroleum gas (LP-gas, or LPG), is a gas that turns liquid under moderate pressure, and is stored in tanks. It is nontoxic, colorless, and virtually odorless unless an identifying odor is added. Propane storage tanks may be designed for aboveground or underground installation and come in a wide range of sizes and cost. Unlike heating oil tanks, propane tanks are typically owned by propane suppliers who lease or rent the tanks to consumers. In Connecticut, 96 percent of tanks are rented or leased, with just four percent owned by customers.

In Connecticut, as in many other states, state fire safety law limits who can fill a propane tank to either the owner of the tank or another "upon the owner's authorization."<sup>2</sup> Other restrictions apply to connecting, disconnecting, and transporting tanks. These laws are commonly referred to as "container" laws. In addition, the Department of Consumer Protection (DCP) oversees and enforces other statutory provisions regulating propane company business practices related to consumer contracts, sales, and service. The Office of Policy and Management monitors and publishes information relating to market prices.

In 2009, DCP issued an investigative report of the 93 propane complaints received by the department since 2007. The report identified several major consumer concerns relating to:

- *pricing* (e.g., large increases following low introductory rates, large fluctuations; annual profit margins as high as 54 percent, no depreciation in price when homeowner attempts to buy the rented tank);

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<sup>1</sup> DPUC has responsibilities for federal propane pipeline regulations, not under review in this study.

<sup>2</sup> RCSA Sec. 29-331-5 (originally based on National Fire Protection Association Standards)

- *contracting* (e.g., charges such as hazmat fee, administration fee, rental fee, low usage fee are not disclosed at contract signing, customer subject to sizable fees if wish to leave company or break the contract, new homeowners often unaware at closing that a company owns the propane tank on their property);
- *safety* (tanks are not required to be tested annually, exaggeration of safety (and cost) by propane companies to encourage homeowners to sign up for a lengthy contract and tank rental); and
- *service* (propane companies not removing tanks in a timely manner when customer wishes to terminate contract).

The department concluded that it could address some of the general issues found in its investigation while other issues would require changes to existing laws and regulations. The department recently submitted proposed regulations that provide additional safeguards and disclosures for consumers purchasing heating fuels including propane. Propane regulation in terms of safety, pricing, and consumer rights has also been the subject of legislative proposals in recent years.

#### **AREAS OF ANALYSIS**

1. Describe and evaluate Connecticut's current statutory and regulatory requirements as well as the organizational structure for oversight
  - a. Compare to selected fuel sources
  - b. Compare to other states, particularly in terms of pricing and container laws
2. Assess the container law and impact on propane customer choice
  - a. History of and basis for container law (e.g., safety concerns due to tank pressurization)
  - b. Liability issues
3. Describe the propane market including the number of suppliers, who uses propane, how the propane is received, competition, and process for becoming a propane company customer
  - a. Examine the current business model
  - b. Review standard contract provisions
  - c. Describe how the price of propane is determined
  - d. Assess service issues for consumers
4. Examine DCP activities regarding business regulation of propane
  - a. Results from DCP 2009 investigative report
5. Review issues related to safety:
  - a. Examine propane safety data
  - b. Review the role of state agencies in the protection of consumers and operators
  - c. Describe national and local regulations intended to protect consumers and operators