



STATE OF WASHINGTON  
DEPARTMENT OF COMMERCE

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UG-210729

October 25, 2021

**VIA ELECTRONIC FILING**

Amanda Maxwell, Executive Director/Secretary  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, WA 98503

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UTIL. AND TRANSP.  
COMMISSION

RE: Consideration of whether to continue to use the Perpetual Net Present Value Methodology to calculate natural gas line extension allowances, Docket UG-210729

Dear Ms. Maxwell,

The Washington State Energy Office (“Energy Office” or “Office”) appreciates the opportunity to comment on the Commission’s examination of whether natural gas companies should continue to use Perpetual Net Present Value (PNPV) methodology for calculating natural gas line extension allowances.

The Energy Office, within the Washington State Department of Commerce, offers these comments as the state agency responsible for developing and monitoring energy policy. These comments are based in part on the analysis and recommendations of the [2021 Washington State Energy Strategy](#), a comprehensive, economy-wide roadmap to meeting the state’s energy and climate goals.

The Energy Office recommends that the Commission re-examine the practice of using the PNPV methodology to establish line extension allowances for new natural gas customers. This methodology was designed to support expansion of the natural gas system and customer base, and it is not consistent with current policy in Washington to reduce the use of fossil fuels. It also puts customers, after having obtained line extensions at a subsidized cost, at risk of becoming captive to natural gas as a fuel source and of being compelled to carry the burden of stranded cost recovery in the future. The Commission should instead consider having new customers pay the full cost of any line extensions.

**The PNPV method encourages expanded use of natural gas, contrary to state policy**

The PNPV approach emerged from an informal comment and workshop process in 2014-2015 that sought to “develop innovative proposals for financing and expanding natural gas distribution infrastructure to areas that currently lack service.”<sup>1</sup> The Commission identified line extension policy as a tool to promote expanded use of natural gas and as a means of addressing environmental concerns about the existing use of wood and oil.<sup>2</sup> The Commission concluded that process without any formal decision or policy statement, but gas companies used the PNPV to increase line extension allowances.

<sup>1</sup> Docket UG-143616, Notice of Opportunity to File Written Comments (October 6, 2014).

<sup>2</sup> Docket UG-143616, Notice of Opportunity to File Written Comments (November 25, 2014).

In the ensuing six years state policy and programs regarding use of fossil natural gas have undergone substantial change. The Legislature has repealed the regulatory policy encouraging expanded customer access to natural gas<sup>3</sup> and instead has enacted strict limits on overall greenhouse gas emissions<sup>4</sup> and a regulatory cap and invest mechanism to achieve those limits.<sup>5</sup>

In addition to these changes in regulatory and climate policy, the Legislature in 2021 allocated \$10 million to support the 2021 State Energy Strategy and demonstrate grid-enabled, high-efficiency, all electric buildings, \$5 million of which was provided solely to support the transition of residential and commercial buildings away from fossil fuels.<sup>6</sup> The Legislature provided an additional \$1,175,000 to “support the implementation of the 2021 state energy strategy as it pertains to emissions from energy use in new and existing buildings, including measures to support... utility electrification benefits.”<sup>7</sup> Finally, the Legislature provided funding for the Commission to examine energy decarbonization impacts and pathways for electric and gas utilities to meet state emissions targets.<sup>8</sup>

Meanwhile, the number of residential and commercial customers using fossil natural gas has increased each year for the most recent ten years for which data are available.<sup>9</sup> We estimate that growth over the last decade in the number of residential and commercial gas customers has increased emissions from fossil natural gas in Washington by 870,000 metric tons CO<sub>2</sub>e per year.

### **Line extension subsidies harm customers under the Climate Commitment Act**

It is especially important that the Commission consider the impact of generous line extension policies when the cap and invest program – the Climate Commitment Act (Chapter 70A.65 RCW) – is implemented. The CCA will require that gas companies surrender allowances to cover the greenhouse gas emissions from the use of their product, and expanded use of fossil natural gas will increase the allowance requirements on gas companies. The program provides free allowances to protect existing customers from rate shock, but almost all new customers are excluded from the cost protection mechanism.<sup>10</sup> The credit mechanism for existing customers must be designed to ensure that per-therm rates reflect the cost of allowances, so it is reasonable to expect that the volumetric charges will increase for all natural gas customers.

Further cause for concern about these cost impacts is due to tendency for line extensions to lock in customers. Once a customer has established a physical connection with the gas distribution system, it will be difficult and expensive to transition to another fuel source, leaving customers at risk of higher

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<sup>3</sup> [Chapter 188, Laws of 2021.](#)

<sup>4</sup> [Chapter 79, Laws of 2020.](#)

<sup>5</sup> [Chapter 316, Laws of 2021.](#)

<sup>6</sup> 2021-23 Omnibus Operating Appropriations Act, Sec. 1064(12)

<sup>7</sup> 2021-23 Omnibus Capital Appropriations Act, Sec. (66)

<sup>8</sup> 2021-23 Omnibus Operating Appropriations Act, Sec. 1064(12)

<sup>9</sup> [https://www.eia.gov/dnav/ng/hist/na1501\\_swa\\_8a.htm](https://www.eia.gov/dnav/ng/hist/na1501_swa_8a.htm)

[https://www.eia.gov/dnav/ng/hist/na1531\\_swa\\_8a.htm](https://www.eia.gov/dnav/ng/hist/na1531_swa_8a.htm)

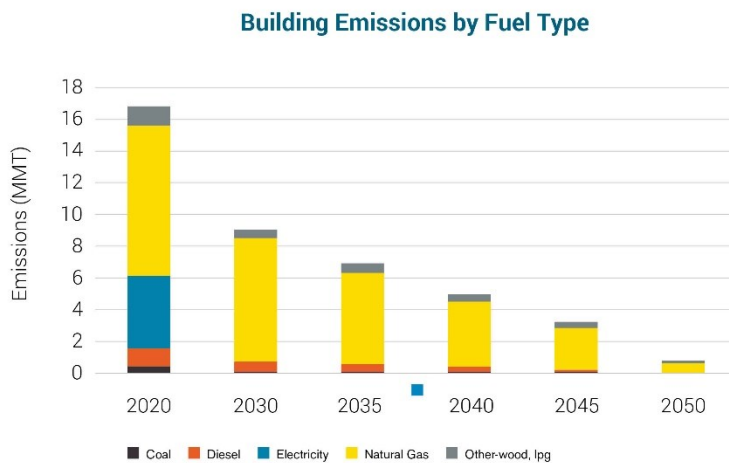
<sup>10</sup> “Except for low-income customers, the customer bill credits under this subsection are reserved exclusively for customers at locations connected to a natural gas utility’s system on July 25, 2021. Bill credits may not be provided to customers of the gas utility at a location connected to the system after July 25, 2021.” RCW 70A.65.130(2)(b).

costs in the future. If customers discontinue gas service anyway, the investment costs associated with their original connection will likely not have been recovered from the departing customer and will result in some combination of stranded costs borne by company investors and a cost shift to remaining customers.<sup>11</sup> The result would be existing customers subsidizing new customers, a result at odds with the Legislature’s stated objectives to preserve affordable energy services to the residents of the state and ensure customers pay only reasonable charges for energy services.<sup>12</sup>

**Expanded use of fossil natural gas is inconsistent with the 2021 State Energy Strategy**

As noted earlier, the PNPV methodology encourages growth in use of fossil natural gas, a result that runs counter the 2021 Washington State Energy Strategy. The strategy found that the state’s greenhouse gas emissions limits cannot be achieved while continuing current use of natural gas. Emissions from gas in buildings must decline by 14% by 2030 and continue to decline at an increasing rate through 2050 to meet the state’s greenhouse gas reduction limits.<sup>13</sup> Policies that encourage new customers and increased emissions increase the size and cost of the eventual transition.

**ELECTRIFICATION SCENARIO: BUILDING SECTOR EMISSIONS BY FUEL TYPE**



Source: Appendix A – Deep Decarbonization Pathways Modeling Report, December 11, 2020.

The strategy’s deep decarbonization modeling analysis looked at two scenarios for decarbonizing the natural gas sector: replacing fossil natural gas with clean electricity or delivering non-fossil gas by pipeline to residential and commercial customers. The modeling found that retaining fossil natural gas as an energy form requires more overall energy, and those emissions would have to be made up by achieving even deeper emissions reductions in the transportation sector.

<sup>11</sup> UG-143616, Exh. AEW-07 at 5.

<sup>12</sup> [RCW 80.28.074](#)

<sup>13</sup> [2021 State Energy Strategy](#), p. 68

Based on these findings, the strategy recommends the Legislature maximize energy efficiency and electrification in residential and commercial buildings, and suggests the Legislature and Commission explore legislative and regulatory actions to restrict growth of the natural gas system.

### **Conclusion**

The Commission last considered the PNPV methodology and its effects in 2020 in a general rate case for Puget Sound Energy. In that case, the Commission declined to modify the use of the methodology, concluding that “it would have industry-wide impacts and should be taken up in another forum.”<sup>14</sup> Chair Danner’s motion to bring the line extension policies before the Commission provides this forum. The Commission should now re-evaluate the practice of subsidizing line extensions and consider having new customers pay the full cost of any line extensions.

Please contact Austin Scharff, Energy Policy Specialist, [Austin.Scharff@commerce.wa.gov](mailto:Austin.Scharff@commerce.wa.gov) with any questions regarding these comments.

Sincerely,



Glenn Blackmon, PhD  
Manager, Energy Policy Office

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<sup>14</sup> [UE-190529 et al - Final Order 08 05 03 - Puget Sound Energy.pdf](#), p. 5