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

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:

On September 21, 2021, the Washington Utilities and Transportation Commission ("Commission") issued a Notice of Opportunity to file comments regarding the consideration of whether to continue to use the Perpetual Net Present Value Methodology ("PNPV") to calculate natural gas line extension allowances ("Notice"). Puget Sound Energy ("PSE") submits the following comments in response to this notice.

PSE fully supports the Commission immediately ordering the discontinuation of its existing PNPV methodology for determining natural gas line extension allowances. This methodology is increasingly out of step with the evolution of the State's energy policy that has occurred since the time it was approved for PSE.

As an intermediate step, PSE supports, under direction from the Commission, submitting a tariff filing revising its methodology shortly after the Commission's October 28th Open Meeting. PSE supports a methodology that reasonably ensures existing natural gas customers are not subsidizing the connection of new natural gas customers and better aligns with both Washington and PSE's decarbonization goals. To that end, PSE believes that promptly reverting back to something similar to its previous methodology for determining natural gas line extension allowances, as discussed further below, may be appropriate. However, PSE is also open to other possibilities, particularly those that could be simply and quickly implemented.

Longer term, PSE believes the Commission will be in a better position to provide direction towards a more durable approach to addressing this issue as part of (or at least informed by) the broader study it is currently undertaking in Docket U-210553 to examine feasible and practical pathways to greenhouse gas reductions. PSE recommends the Commission allow time for that study to conclude before examining this issue of natural gas line extension allowances further.

By way of background, a utility line extension allowance is the amount of funding a utility provides toward construction costs of extending distribution services to a new customer. The calculation to determine the amount of the allowance takes into consideration the costs and benefits attributable to adding the new customer. The methodology typically seeks to provide allowances proportional to the net benefits that a new customer provides to existing customers on the system, with the overarching intent of holding the existing customers harmless from the connection of new customers.

Following the adoption of the PNPV methodology by Avista and Cascade Natural Gas in 2016, PSE proposed adopting the PNPV methodology in Docket UG-161268 and this proposal was allowed to take effect on March 1, 2017. The PNPV methodology is calculated using the allowed margin revenue from the customer, divided by the authorized rate of return. This calculation is an accurate representation of costs and benefits if the new customer maintains or exceeds the expected natural gas usage in perpetuity and imposes no incremental costs on the existing system. However, if a new customer's usage is less than expected, or falls over time, or if there are incremental costs associated with connecting the new customer, the initial line extension allowance will have been too generous and existing customers will end up subsidizing the new customer.

As noted earlier, PSE supports immediately discontinuing the use of the PNPV methodology to calculate natural gas line extension allowances and adopting a different methodology that more appropriately accounts for costs and benefits consistent with new state policies. Recent changes to state policy to address the climate crisis, including the Climate Commitment Act, have an impact on the underlying assumptions of the PNPV methodology such that continuation of this methodology could lead to cost shifting resulting in a subsidy to new gas customers. Such subsidies are not consistent with state policy or even traditional regulatory policy, nor are they in line with PSE's current decarbonization goals.[1]

PSE's previous line extension allowance used a discounted cash flow Facilities Investment Analysis (FIA) methodology. The FIA methodology provides a line extension allowance based on a calculation that includes, for example, consideration of the natural gas powered appliances being installed, annual therm assumptions estimated using square footage, whether a main extension is required, and whether other new customers would be included along the same extension.

Although the FIA methodology is somewhat more complex to calculate, the FIA methodology does allow more precise assumptions that can be tailored to reflect current state policy including building codes and to align with PSE's decarbonization goals. The FIA provides a more accurate means of determining the allocation of costs and benefits associated with natural gas customers in today's policy environment and can be adapted for future developments. Thus, as an interim step, at a minimum, PSE supports immediately changing its natural gas line extension allowance back to the FIA methodology using assumptions more aligned with evolving State energy policy

[1] See https://www.pse.com/en/pages/together for PSE's Beyond Net Zero Carbon pledge.

and PSE's current decarbonization goals. PSE is also open to discussing other methodological approaches to determine the appropriate line extension calculation methodology going forward.

Finally, it is worth noting that natural gas line extension allowance provisions influence new infrastructure costs, and therefore design choices, for homebuilders and ultimately our customers. Changes to line extension allowances should include consideration of the impacts on the building and construction community, as well as resulting impacts to the natural gas workforce, especially to projects or construction currently in the planning and scoping stage. It is important to provide clarity, consistency and as much predictability as reasonably feasible in making changes to a utility's natural gas line extension policy. To that end, PSE would respectfully suggest that any near-term changes to its line extension policy be allowed to take effect no sooner than next spring to allow time to communicate these changes to the building community and afford them an opportunity to respond accordingly.

PSE appreciates the opportunity to provide input on this important topic. For additional information about these comments, please contact Wendy Gerlitz at (425) 462-3051 or me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

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