



# NW Energy Coalition

October 25, 2021

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

State OF WASH.  
 UTIL. AND TRANSP.  
 COMMISSION

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

Dear Ms. Maxwell:

Thank you for the opportunity to comment in Docket UG-210729, regarding the use of the Perpetual Net Present Value (PNPV) Methodology for calculating natural gas line extensions for residential customers. The NW Energy Coalition is a public interest organization focused on ensuring clean and affordable energy for all customers. We have provided testimony or comments regarding the use of this methodology to the Utilities and Transportation Commission (UTC or Commission) in a recent Puget Sound Energy general rate case (UE-190259, et al.), a recent Avista general rate case (UG-190335, et al.), and in docket UG-180920, regarding Avista's use of the methodology and related programs.

## Summary of Recommendations

The NW Energy Coalition recommends that the Commission order:

- That the use of the PNPV methodology be ended for the calculation of natural gas line extension allowances and that natural gas utilities not provide line extension allowances for new residential customers;
- That the use of natural gas line extension allowances for other types of customers (e.g., commercial, multifamily) be evaluated and potentially ended; and
- That there be further analysis regarding the needed regulatory tools for gas utilities to meet the state's greenhouse gas emission reduction targets.

## Background

A utility line extension allowance, sometimes called a "construction allowance," is the amount of funding a utility will provide toward extending distribution services to a new customer. In the case of a gas utility, it is how much funding a utility contributes toward the construction of distribution infrastructure for a new natural gas customer. Any remainder between the cost of construction and the line extension allowance is left to the customer to provide; this customer funding is sometimes also called the "customer contribution" or "contribution in aid of construction."

Prior to 2014, the gas utilities in Washington provided a line extension allowance that was based on the estimated revenue from a customer. For example, Avista provided an allowance equal to three times

the estimated annual revenue from the customer.<sup>1</sup> However, in 2014, the Washington State legislature considered a bill, HB 2177, that would have directed the UTC to conduct a process that allows customers and utilities to bring forth proposals for the financing and building of natural gas infrastructure, with a particular focus on rural and underserved areas. The bill did not pass the full legislature, but did pass the House, and the sponsoring State representative requested that the UTC open a docket to fulfill the spirit of the bill. In response, the UTC opened a collaborative docket, UG-143616, to “discuss the need for natural gas distribution infrastructure expansion, and investigate the options available to implement such expansion.”<sup>2</sup>

One result from the docket was that Avista “piloted” the PNPV methodology for the calculation of residential line extension allowances. Rather than assessing the estimated usage for a potential new customer, this methodology uses a present value formula wherein the customer is expected to be connected to the system in perpetuity. The UTC Staff memo in support of the change stated, “[s]taff supports using this methodology because it produces the maximum line extension allowance that is economically-viable for the company... The benefit of this methodology is that it is simple to calculate, and uses figures that are established by the commission during a rate case.”<sup>3</sup>

Eventually, this “pilot” was adopted permanently for Avista; Cascade Natural Gas and Puget Sound Energy also adopted the use of this methodology for at least their residential customers (Cascade also appears to use it for their commercial customers). More background can be found in my testimony in the Avista and Puget Sound Energy general rate cases from 2019.

## Should Washington State move away from the PNPV for gas allowances?

The notice for comments seeks input from stakeholders on whether natural gas utilities should continue to use the PNPV methodology for calculating natural gas line extension allowances. In short, the NW Energy Coalition thinks the **gas utilities should not continue to use the PNPV methodology** for calculating these line extension allowances. Our reasons for this are multifold:

1. **The pilot establishing this methodology was never evaluated.** Avista proposed to make this change for a three year period (along with other program changes to encourage customers to move to the gas system). During that period, the Commission adopted this same change permanently for two other gas utilities. The main reasoning from UTC staff for endorsing this change seemed to be because the formula was easier to calculate and resulted in the maximum line extension allowance that is economically viable for the gas utility. Avista, in the original filing, also suggested that there are environmental benefits due to decreased emissions, and that customers would be more likely to connect to the gas system. There was not any evaluation, to my knowledge, that the pilot had fulfilled these various goals and should therefore be made permanent.
2. **Policy has changed.** In recent years, Washington state policy and direction around energy, climate, and fossil fuels has changed significantly.

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<sup>1</sup> See Docket UG-152394, Open Meeting Memo (Feb. 25, 2016).

<sup>2</sup> See Docket UG-143616, Notice for Written Comments.

<sup>3</sup> See Docket UG-152394, Open Meeting Memo.

- 2019’s Clean Energy Transformation Act (CETA) will make Washington’s electricity less emissions-intensive, and increasingly so over time. An original reason for encouraging more customers to connect to the natural gas system was that it would be less emissions-intensive to heat a home directly with gas, than it was to heat a home with electricity that may be generated by coal or gas. As our state moves away from these fossil uses for electricity generation, this assumption no longer holds.
  - In 2020, Washington passed updated GHG emission reduction targets that are in line with the Paris Climate Agreement. The 2021 Washington State Energy Strategy indicates that significant electrification of buildings will be a least cost way of reaching our climate targets.<sup>4</sup>
  - Earlier in 2021, the Climate Commitment Act (CCA) passed the state legislature, setting a declining economic cap on emissions in line with our greenhouse gas emission target. Gas utilities are granted allowances at no cost for customers, which the utilities must consign to the benefit of ratepayers and that decline with the economic cap. However, most customers not connected to the system as of July 2021 are not granted bill credits.<sup>5</sup>
  - Washington’s energy code for new construction is significantly more efficient than it was under even the code in effect in 2014 (the 2012 code) and is legislatively directed to become even more efficient, with a goal of being fossil fuel free by 2031.<sup>6</sup> As a result, new homes will use less gas than older homes.
- 3. Our understanding of the science has advanced.** We now know more about the climate impacts of methane. Methane is a potent greenhouse gas, with a global warming potential at least 84 times more potent than carbon dioxide. With the expansion of more pipes, there are more opportunities for methane leakage—leakage that is likely higher upstream than our current calculations indicate.<sup>7</sup>
- 4. As a result, the original reasoning and assumptions for moving to this methodology are no longer valid.** The docket that started the path for these discussions, UG-143616, started with a notice of comments to “discuss the need for natural gas distribution infrastructure expansion, and investigate the options available to implement such expansion.”<sup>8</sup> The resulting line extension methodology assumes that customer will be connected to the system permanently with a consistent level of usage. In addition, one reason for switching to the methodology was the possible environmental benefits that could result, rather than also considering the environmental costs of connecting new customers to the system.

However, these assumptions are no longer valid, and as a result, the resulting calculated allowance to new customer is overly generous, putting existing customers at

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<sup>4</sup> Washington State Energy Strategy (2021). <https://www.commerce.wa.gov/growing-the-economy/energy/2021-state-energy-strategy/>

<sup>5</sup> SB 5126 (2021). <https://lawfilesexternal.wa.gov/biennium/2021-22/Pdf/Bills/Session%20Laws/Senate/5126-S2.SL.pdf?q=20211025142317>

<sup>6</sup> Ecotope. SBCC Baseline Study (2020). [https://www.sbcc.wa.gov/sites/default/files/2020-11/SBCC%20BaselineStudy%20Revised\\_inclusive%20Final\\_2020\\_Nov6.pdf](https://www.sbcc.wa.gov/sites/default/files/2020-11/SBCC%20BaselineStudy%20Revised_inclusive%20Final_2020_Nov6.pdf)

<sup>7</sup> Heutte, Fred. NW Energy Coalition. Comments to the NW Power Council. June 15, 2020. [https://www.nwcouncil.org/sites/default/files/2020\\_0616\\_2.pdf](https://www.nwcouncil.org/sites/default/files/2020_0616_2.pdf)

<sup>8</sup> See Docket UG-143616, Notice of opportunity to file written comments, October 6, 2014.

risk and incentivizing new customers to join a system that future policy or market forces may direct them away from.

## Recommendations

In our testimony on the PSE and Avista general rate cases, we asked that the Commission order the companies back to their respective previous methodologies, which were based on estimated usage, and then discuss collaboratively with more stakeholders the next steps to ensure that our regulatory tools were aligned with state policy.

Given the above policy changes – particularly the CCA – we now think it is time for gas companies to end residential line extension allowances. An argument for line extension allowances is that the new customer will bring benefits to existing ratepayers, allowing capital costs to be socialized amongst more ratepayers. However, it is not clear that benefits to the existing gas ratepayers outweigh the risks of bringing new customers and infrastructure onto the system in the longer term. For the same reasons, we also recommend that the Commission reevaluate methodologies for calculating gas line extension allowances for non-residential customers. Making these changes would not prohibit new customers from choosing to hook up to the natural gas system, it would only require them to pay the full costs of doing so.

The NW Energy Coalition also recommends that there be further analysis regarding the needed regulatory tools for gas utilities to meet the state’s greenhouse gas emission reduction targets. In Oregon, UM 2178 is using a stakeholder process to examine these regulatory tools in more depth<sup>9</sup>; a similar discussion in UG-210553 on these tools also seems appropriate for the Washington UTC to consider.

Thank you for the opportunity to provide comments on this matter. I will be in attendance at the open meeting on Thursday, October 28, 2021.

Sincerely,

/s/

Amy Wheelless  
Senior Policy Associate  
NW Energy Coalition

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<sup>9</sup> See Oregon PUC Docket UM 2178. <https://apps.puc.state.or.us/edockets/docket.asp?DocketID=22869>