UG-143616 Natural Gas Infrastructure Expansion - Summary of Comments
December 15, 2014

1. Line Extension Tariffs:

Avista: This can be done under the commission's current authority. Changes in methodologies used to calculate line extension tariffs can be accomplished through individual company filings.

Current tariffs:

Avista calculates the allowable distribution system investment based on expected customer revenue (includes marginal revenue associated with natural gas delivery, and also natural gas supply and transportation costs, and other adder rates.)

- If natural gas is available in the street adjacent to the customer's premises and the main is on the same side of the street: customer may generally connect without paying a contribution.
- If the main is on the other side of the street: added construction cost for boring or pavement cutting will likely require a customer contribution.
- If the main is not yet installed in the customer's neighborhood: customer will bear the cost of installing new main.
- In all cases: costs associated with new equipment (furnace, water heater, range, etc.)
- Low commodity cost = more incentive for customer, less need for company to fund extension
- High commodity cost = less incentive for customer, more need for company to fund extension
- It is a much more efficient use of natural gas to use it directly in customers' homes and businesses than to use it to produce electricity in power plants.

Northwest Natural (NWN): NWN's current tariff requires new customers to pay up-front for all costs of new service, to the extent those costs exceed the margin expected to paid by that customer through rates over the first five years of service ("five times margin"). This is somewhat conservative, and assumes that other customers' rates won't be affected so long as the new customer remains on the system for at least 5 years.

New options:

Perpetual Net Present Value Method: The maximum level of "economical" investment equals the annual distribution margin divided by the required rate of return. This methodology would provide a higher line extension allowance than the current methodology. In practice, the tariff would use the expected distribution margin from the specific customer, based on the appliances and equipment installed in the home or business. (Avista)

Customer and societal benefits: electricity savings, long-run power supply impacts, environmental benefits, increased customer comfort, convenience and reliability. (Avista)

Cascade Natural Gas (CNG): revising line extension tariffs is the most effective tool available, but relaxing the criteria for new customers will put rate pressure on existing customers as well as financial pressure on the utilities. (For example, lengthening the simple payback period from three or five years to 10 or 15 years.) Guidance from the commission on what is the prudent view will be important. Rationality and rate sensibility are crucial.

Puget Sound Energy (PSE): New line extension tariffs could take into account:

- cost savings due to installing infrastructure in conjunction with other work
- cost savings to all customers due to electric to natural gas fuel switching
- expansion to designated areas that have developed a long-term development plan likely to bring sufficient revenue to support the costs of infrastructure expansion
- broader societal benefits such as emissions reductions, tax revenues that outweigh the cost of expansion

NWN: It would be helpful and appropriate for the commission to provide guidance on the appropriate balance. Any preference afforded to an underserved area should not be deemed an "undue preference" in contravention of RCW 80.28.020.

2. Policy Statement

Avista: No need to identify un-served or under-served areas since the economics of all projects would be determined in the same manner. No need to modify standards of prudence and used and useful.

Northwest Industrial Gas Users (NWIGU): The UTC should make it clear that existing ratepayers should not subsidize new investments that will benefit only investors and new customers. NWIGU supports finding effective ways to incentivize new customers, like longer time horizons for collecting infrastructure costs.

CNG: Cascade suggests the Commission issue a policy statement identifying its specific public interest goals vs. obligations to existing rate payers, and let the utilities identify the ways and means to achieve the desired outcome.

- How much pressure on current ratepayers in the immediate future is in the public interest long-term?
- Should current ratepayers pay for long-term benefits of economies of scale, greenhouse gas reductions, etc.?
- Is the advancement of natural gas as a whole in the public interest, or should certain geographical areas be a priority?

PSE: Such a statement should articulate an assured subsequent rate recovery of natural gas plant that is constructed in advance of need, but yet is still considered used and useful because it will likely be used in the future. It should clearly articulate the criteria, costs and benefits by which the Commission would review the prudence of capital additions in underserved areas and whether they are used and useful.

NWN: This is within the commission's existing authority, and the commission may establish criteria for these standards. If the commission determines that important policy considerations or existing statutes underlie the focus on underserved areas, such a policy would have greater legal weight.

3. Discounted Rates for Low-income Customers

Avista: High rental rates and annual income levels are significant hurdles to expanding natural gas service among low-income customers.

PSE: Funds for discounted rates for fuel-switching shouldn't compete with bill assistance funds. It is unclear whether discounted rates alone would make any marginal difference in a customer making the decision to switch.

NWN: low-income customers would still need to be able to overcome the initial upfront costs of purchasing natural gas-fired equipment behind the meter. This may need to be coordinated with energy efficiency equipment installation programs or low-income grant programs.

4. Advertising Rule Changes

Avista: Avista doesn't benefit from added throughput associated with new natural gas customers, since its revenues through the decoupling mechanisms are adjusted to reflect revenues per customer. The company believes that the costs of promotional advertising encouraging customers to switch to natural gas should be recoverable in rates. Avista provided suggested language changes to WAC 480-90-223.

CNG: Agrees that it may be necessary to modify this rule or provide a waiver. If the commission determines that direct use of natural gas is in the public interest, that advertising in general for natural gas should be considered, and not just in specific under or unserved areas.

PSE: The Commission could initiate a rulemaking to permit cost recovery of advertising directed toward natural gas in under- and unserved areas. Absent a rulemaking, the commission could send a clear signal that it would support requests for a waiver of this rule in certain cases.

NWN: By itself, a change to this rule would not result in significant system expansion because it does not address the upfront costs.

5. On-bill Financing

Avista: Avista believes the commission has the authority to authorize on-bill financing for a range of energy services, including the costs of converting to natural gas service. Avista lacks the ability to provide on-bill financing due to the limitations of its customer information system, but that capability could be available as early as 2016. Avista supports the UTC authorizing on-bill financing.

CNG: this is a viable option that should be explored on a utility-by-utility basis. This would also come with costs such as computer programming, credit risk, capital outlays and potentially higher uncollectibles, and / or other unintended outcomes.

PSE: The commission has existing authority to allow on-bill financing. PSE has used on-bill financing in the past, and would be interested in using it to finance line extensions in the future. This would require a proceeding to address financing terms, finance instrument length, customer credit requirements, etc.

NWN: The primary challenge in programs of this type is in finding a third-party financial institution interested in financing these types of consumer loans without the utility having to secure the loan portfolio. Ideally, an on-bill financing program would need to be a tariffed service that can be structured to fall outside of federal financing laws. It would require the commission to authorize utilities to disconnect for nonpayment and revise the existing prior obligation rules.

6. Infrastructure Fund

Avista: the mix of other options being discussed in this docket provides ample opportunity to achieve its objective, without the establishment of an infrastructure fund.

CNG: this approach seems outside the scope of commission purview. Requires legislative approval to grant local area taxing authority for specific purposes.

PSE: Tax financed bonds dedicated to natural gas infrastructure would require a legislative solution. At current utility tax rates, tax revenues generated for an individual residence would only offset a portion of the construction costs.

NWN: the legislature approved this type of financing in Chapter 39.89 RCW. This would likely require legislative action to expand the tax increment financing for public utility infrastructure projects.

7. Pilot Rules

Avista: It would be appropriate to allow LDCs to propose and implement pilot programs to test how best to achieve this objective. This is within the commission's existing authority.

CNG: It may be useful to adopt pilot extension policies if the focus is on under-served or unserved areas and not a more general public interest policy.

PSE: Pilot rules may be applicable when assessing costs and benefits in certain geographic areas—for example, areas with long-term development plans.

NWN: pilot rules would be appropriate.

8. Local construction costs and impact fees

Avista: It is more expensive to install natural gas facilities in areas that are already developed than in new developments.

- Some factors include: the density of development, the existence of other underground facilities, the need for traffic control, whether the pavement has to be cut, the underlying soil conditions, the size of the main being installed, and the requirements of local jurisdictions for pavement cutting and restoration. Where pipe can be installed in uncapped soil, the unit cost of installation is as low as $40 / ft. Where restrictive policies are in place and pavement is involved, the installation costs for mains can exceed $100 / ft.
- Strategies to reduce costs (20-25%): horizontal directional drilling, keyhole technology for utility spotting, pipe split and pull, working with local jurisdictions to use less costly street repair solutions, and coordinate the installation of pipe in streets where other construction is already planned.

CNG: For example, the City of Burlington quotes CNG $400 plus a "per foot" amount. It normally averages 3-4 weeks to approve a permit.

PSE: A Seattle homeowner in the Ballard area would have to contribute approximately $2,400 in order to have a gas service and meter installed, primarily due to the added cost of street restoration imposed by the city. PSE provided estimates for line extension costs in Seattle, Bellevue, Tacoma and Snohomish.

NWN: Construction permits for a typical gas conversion job average around $180 in the City of Vancouver. When taxes are included, this adds an additional $230 to the customer contribution. NWN provided comments about paving moratoriums.

9. Concurrent construction projects:

Avista: With the exception of new developments, this is a rare opportunity.

CNG: projects could be reviewed on a case by case basis if included in a specific recovery mechanism like the pipeline replacement recovery mechanism.

PSE: The economic feasibility of expanding natural gas service in conjunction with other projects should be determined based on whether there is a reasonable likelihood that such coordinated expansion could be completed at a cost lower than stand-alone expansion, taking into account the time value of money.

NWN: It would be unclear to utilities whether these projects are used and useful.

10. Other strategies and methods:

CNG: the use of area rates—a separate tariff for specific areas could be developed and used to pass costs to cost causers over an extended period of time.

PSE: The Commission could approve infrastructure expansion funds for utilities to provide natural gas infrastructure in unserved or underserved areas, perhaps those identified to be consistent with a policy statement or rulemaking. These funds could be funded as riders to all customers or a subset, and could be capped in annual collection to mitigate rate impacts.

NWN: As with safety-related system investments, NWN believes a cost tracking mechanism would be appropriate for infrastructure expansion projects.