Agenda Date: October 28, 2021
Item Number: A3

Docket: **UG-210729**
Company: Puget Sound Energy (PSE)
Avista Corporation d/b/a Avista Utilities (Avista)
Cascade Natural Gas Corporation (Cascade)

From: Dave Danner, Commission Chair

Recommendation

Issue an order requiring PSE, Avista, and Cascade to submit revised tariff sheets for calculating natural gas line extension allowances based on the method used prior to each company's authorization of the Perpetual Net Present Value Method.

Background

Utilities provide margin allowances to partially offset (and thus subsidize) the cost for the expansion of natural gas distribution to new customers. In 2014, the Commission opened Docket UG-143616 to discuss the need for natural gas distribution infrastructure expansion as well as the options available to implement such an expansion. A part of that discussion included adopting the Perpetual Net Present Method Value (PNPV) method, which significantly expanded the size of the credit provided by margin allowances.

Summary of Filings Adopting the PNPV Method

On February 25, 2016, Avista proposed tariffs adopting the method for calculating line extension allowances. The Commission authorized the change and increased the margin allowance from $1,920 to $4,482 for residential customers. The PNPV method for calculating Avista's natural gas line extensions was made permanent on February 19, 2019.[1]

On July 29, 2016, Cascade filed proposed revisions to its Tariff WN U-3 that adopted the PNPV method to calculate line extension allowances. This change increased the margin allowance from $572 to $3,255 for residential customers. The tariff revisions became effective by operation of law on September 1, 2016.[2]

On December 6, 2016, PSE filed a tariff revision proposing to implement Rule No. 6 – Extension of Distribution Facilities, which adopted the PNPV methodology consistent with Avista's and Cascade's line extension tariffs. This change increased the margin allowance from $1,932 to

[1] Staff Memo, UG-152394

[2] Staff Memo, UG-160697

$4,179 for residential customers. The Commission authorized the tariff change at its January 12, 2017, open meeting.[3]

PSE General Rate Case

In PSE's 2019 General Rate Case, the Commission received testimony from the Northwest Energy Coalition (NWEC) recommending that the Commission order PSE to revert to its previous line extension allowance calculation methodology or to revisit the issue in a broader forum. The Commission declined to adopt NWEC's recommendation at that time.[4]

I respectfully dissented from this decision because:

> This methodology, the Perpetual Net Present Value (PNPV) methodology, has the potential in many instances to require existing gas customers to subsidize the costs of bringing new customers on to its system. In my view, this methodology is based on outdated assumptions and was approved in furtherance of state policy that has evolved and is no longer defensible.[5]

Discussion

The use of the PNPV methodology is contrary to the legislature's clear direction to utilities to reduce the direct use of fossil fuels. The passage of the Clean Energy Transformation Act (CETA) in 2019 requires that electric utilities reduce their carbon emissions by eliminating coal by 2025 and all carbon-emitting resources by 2045. The legislature in 2021 amended RCW 80.28.074 to clarify that it is no longer the policy of the state to advance specifically the availability of natural gas services to state residents. The PNPV method significantly increases the margin allowances for each utility and thus directly subsidizes (or at least encourages) the reliance on fossil fuels. Allowing the PNPV method to continue in the era of CETA is inconsistent with state policy.

I acknowledge that there are multiple policy questions that underly natural gas margin allowances. However, as I noted in my dissent in 2019:

> It is unclear given our current workload, resources, and priorities that we can turn to this any time soon, or that it could be concluded expeditiously. In the meantime, we will continue to allow potential subsidies for new gas customers, contrary to legislative intent, pending the outcome of that proceeding and the subsequent implementation by utilities.[6]

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[3] Staff Memo, UG-161268

[4] Final Order 08, Docket UE-190529 *et. al.*

[5] *Id.* at 209.

[6] *Id.* at 210

If anything, our workload has only increased since my dissent in 2019. By eliminating the PNPV method, we can align utility tariffs with the intent of the legislature now while still allowing time to fully investigate the policies and methodologies regarding natural gas line extensions.

Finally, PNPV was adopted for the first time just six years ago. Because the changes were relatively recent, it should take minimal work for utilities to refamiliarize themselves with their previous methods.

Conclusion

Given the clear state policy to reduce the reliance on fossil fuels, the faulty assumptions that support the PNPV method, and the lack of resources available to complete a broader policy investigation, the PNPV method should be discontinued for natural gas line extension allowances. The Commission should order PSE, Avista, and Cascade to revert to the previous method each company used to calculate natural gas margin allowances.