Service Date: October 29, 2021

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of Chair Danner's Motion to Consider Whether Natural Gas Utilities Should Continue to Use the Perpetual Net Present Value Methodology to Calculate Natural Gas Line Extension Allowances	DOCKET UG-210729 ORDER 01 AUTHORIZING AND REQUIRING TARIFF REVISIONS

INTRODUCTION

1 **PROCEDURAL HISTORY.** On September 21, 2021, the Washington Utilities and Transportation Commission (Commission) issued a Notice of Item to be Considered at the Commission's Regularly Scheduled Open Meeting and Notice of Opportunity to File Written Comments (Notice). The Notice explained that Commission Chair David Danner, on his own motion, seeks input from regulated natural gas companies and stakeholders addressing whether natural gas utilities should continue to use the current Perpetual Net Present Value (PNPV) methodology for calculating natural gas line extension allowances.

2 The Notice explained that the Commission would address this issue at its October 28, 2021, regularly scheduled open meeting and requested that interested persons file written comments by October 25, 2021.

3 **BACKGROUND.** Natural gas utilities provide line extension allowances to partially offset the cost of expanding the natural gas distribution system 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. Part of that discussion included adopting the PNPV methodology,[1] which significantly increased the credit provided to customers through natural gas line extension allowances.

4 On February 25, 2016, Avista Corporation d/b/a Avista Utilities (Avista) proposed tariffs adopting the PNPV method for calculating line extension allowances. The Commission

[1] Under the PNPV method, a line extension allowance is calculated using the anticipated revenue from the customer divided by the authorized rate of return, which results in the net present value of the customer's presence on the system. The current calculation assumes that a customer will remain on the natural gas system in perpetuity. See Commission Staff's Comments, page 1-2.

authorized the change and increased Avista's natural gas line extension 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.[2]

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

6 On December 6, 2016, Puget Sound Energy (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 PSE's natural gas line extension allowance from $1,932 to $4,179 for residential customers. The Commission authorized the tariff change at its January 12, 2017, open meeting.[4]

7 In PSE's 2019 General Rate Case, the Commission received testimony from the Northwest Energy Coalition (NWEC) noting that the current PNPV calculation can result in subsidies from current natural gas customers to new customers and recommending that the Commission require 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 as part of that rate case but signaled its intention to revisit the issue in a future proceeding.[5] Chair Danner dissented from this decision. In a concurring statement, Commissioner Rendahl supported revisiting the issue because the record evidence in the rate case was insufficient to support making a change.

8 **STAKEHOLDER COMMENTS.** The Commission received written comments from numerous stakeholders, including Commission staff (Staff). Most comments recommend discontinuing natural gas line extension allowances entirely or at least discontinuing the use of the PNPV methodology. The Alliance of Western Energy Consumers (AWEC) filed comments recommending the Commission retain the PNPV methodology, but later revised its comments at the open meeting to support Staff's or Northwest Natural Gas Company's proposals.

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[2] Docket UG-152394, Staff Memo (Feb. 25, 2016).

[3] Docket UG-160967, Staff Memo (Aug. 29, 2016).

[4] Docket UG-161268, Staff Memo (July 10, 2017).

[5] Docket UE-190529 *et. al.*, Final Order 08 ¶ 614 (July 8, 2020).

9 The City of Seattle urged the Commission to consider the costs of expanding fossil fuels, including the social cost of greenhouse gas, and whether benefits would still accrue for ratepayers, including low-income and vulnerable customers.

10 The Public Counsel Unit of the Attorney General's Office (Public Counsel) recommends the Commission discontinue the use of PNPV and provide line extension allowances that minimize the socialized costs of line extensions while still providing adequate access to natural gas for new customers. At the open meeting, Public Counsel noted that reducing the use of natural gas is consistent with legislative clean energy goals and recommended the Commission adopt an alternative to PNPV that is consistent with Washington state clean energy policy.

11 Avista supports discontinuing the use of the current PNPV methodology and reverting to its prior methodology, or, in the alternative, adopting Staff's recommendation. Avista proposes to use values from its Natural Gas Decoupling Mechanism baseline to determine the natural gas line extension allowance, resulting in an allowance for residential customers of $2,100 (compared to the present allowance of $4,678) and a Non-Residential per therm allowance of $1.36/therm (compared to the present allowance of $3.44/therm). At the Commission's open meeting, Avista stated that it has 272 customers currently under construction and receiving line extension allowances and more than 1,000 customers in the design phase. Avista thus requests a transition date of April 1, 2022, to allow customers who have already begun the line extension process to move forward under the current PNPV calculation.

12 Northwest Natural Gas Company (NW Natural) does not currently use PNPV. Rather, NW Natural calculates its line extension construction allowance as five times the delivery margin for the applicable rate schedule multiplied by the annual estimated therm usage attributable to the customer's installation. NW Natural believes that its existing Schedule E tariff is designed to determine the fair cost of providing fuel choice while economically eliminating cross-subsidization between existing ratepayers and new customers.

13 PSE supports discontinuing the PNPV methodology because it is increasingly out of step with the evolution of the State's energy policy. 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's and PSE's decarbonization goals. To that end, PSE believes that promptly reverting to something like its previous methodology for determining natural gas line extension allowances may be appropriate. PSE's previous line extension allowance used a discounted cash flow

Facilities Investment Analysis (FIA) methodology.[6] PSE supports immediately changing back to the FIA methodology in the interim and addressing this issue more fully in Docket U-210553, the Commission's examination of energy decarbonization impacts and pathways for electric and gas utilities to meet state emissions targets. At the Commission's open meeting, PSE reiterated its recommendation to conduct a broader investigation into this issue and stated that it supports Staff's recommendation.

14 The Department of Commerce (Commerce) asserts that PNPV is contrary to state policy and urges the Commission to consider discontinuing line extension allowances altogether. In the alternative, Commerce supports Staff's recommendation to modify the PNPV calculation.

15 RMI and the Natural Resources Defense Council observe that the line extension allowances generated by the PNPV method are 1.5 to 3 times higher than allowances in Colorado and California, both of which use revenue-based formulas to calculate allowances.

16 Cascade proposes reverting to its previous calculation method of 3.3 times margin allowance for service connections and an additional 3.3 times margin allowance if main extensions are also required. Cascade proposes a transition period to allow the company to complete line extensions already in progress using the current PNPV method.

17 350Seattle recommends ending all natural gas line extension allowances and instead providing allowances for beneficial electrification.

18 The Sierra Club urges the Commission to implement a complete moratorium on new natural gas collections or, in the alternative, to end natural gas line extension allowances.

19 NWEC recommends the Commission evaluate and potentially discontinue line extension allowances completely. NWEC further recommends the Commission evaluate the need for regulatory tools for natural gas utilities to meet state greenhouse gas emission reduction targets.

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[6] 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 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.

20 The 37th Legislative District Democratic Environmental Caucus recommends discontinuing the use of PNPV or any rate-based fees for extending natural gas distribution infrastructure.

21 Staff recommends retaining the PNPV method but updating the discount timeframe as a matter of policy. Overall, Staff believes this revised PNPV method results in a simpler tariff structure and makes the relevant calculations easier to understand, perform, and apply. Staff also believes that this PNPV method ensures that line extension allowances are economically justified. Staff recommends adopting a Net Present Value (NPV) method that updates the discount timeframe based on consideration of the following policy factors:

- Cost of greenhouse gas emissions
- Environmental impact from oil furnaces and wood-burning stove emissions
- Economic development from expanding service to areas not currently served by natural gas
- Increasing energy efficiency
- Historical equity in access to natural gas for marginalized communities and vulnerable populations
- The treatment of natural gas versus electric infrastructure by the State of Washington

22 Staff recommends using an eight-year timeframe because it aligns the margin allowance discount timeframe with the implementation of the Clean Energy Transformation Act (CETA).[7] Additionally, Staff believes that a calculation using the 8-year timeframe will be closer to or lower than an updated margin allowance calculation using PSE's FIA model.

23 Chair Danner proposes to adopt Staff's recommendation, in part, and modify the PNPV method to include a timeline of seven years, which will result in a limited line extension allowance more consistent with state policy and closer to the amount allowed in 2014 prior to the adoption of PNPV.

[7] Chapter 19.405 RCW.

DISCUSSION AND DECISION

24 We agree with Staff's recommendation, in part, and require PSE, Avista, and Cascade to file tariff revisions by November 17, 2021, adopting a Net Present Value (NPV) methodology using a seven-year timeline for calculating natural gas line extension allowances for the reasons discussed below.

25 In recent years, the legislature has enacted several laws aimed at reducing greenhouse gas emissions, including emissions from natural gas. In 2019, the legislature passed CETA, which requires electric utilities to eliminate coal by 2025 and all carbon-emitting resources by 2045. In 2021, the legislature amended RCW 80.28.074 to clarify that advancing the availability of natural gas services to Washington residents is no longer state policy. Additionally, as several commenters noted, the legislature directed that Washington's energy code be revised to make new construction more efficient, which will result in new homes and buildings using less natural gas than existing structures currently use.

26 Further, this year, the legislature also passed the Climate Commitment Act,[8] under which gas companies must meet specific emissions reductions requirements and must surrender allowances to cover the greenhouse gas emissions from the use of their product. While gas companies will receive free emissions allowances to address cost impacts to current customers, almost all new customers are excluded from this part of the program.

27 We appreciate the thoughtful perspectives offered by the companies, consumers, and stakeholders, most of whom agree that the current PNPV methodology is contrary to the legislature's clear direction to reduce greenhouse gas emissions and the use of fossil fuels. As many commenters aptly observed, it is imperative that we address climate change, including the health impacts of greenhouse gases and methane emissions on Washington's communities and citizens. Recognizing the urgency of this issue, we view our decision today as an interim measure that will substantially reduce line extension allowances while we continue to engage in dialogue with regulated utilities and other stakeholders in Docket U-210553, the Commission's broader examination of energy decarbonization impacts and pathways for electric and gas utilities to meet state emissions targets.

28 The comments we received in this docket offer several important factors to consider as we move forward, including the likelihood that natural gas lines will not be serving customers in Washington in perpetuity, the laws and rules in Washington related to greenhouse gas emissions, new requirements in the State Energy and Building Codes,

[8] RCW 70A.65.900.

ensuring that utility tariffs do not increase the likelihood of stranded assets in the future, and ensuring that line extension policies do not shift the cost burden from new to current customers. Although the proceeding in Docket U-210553, which is already underway, provides a more appropriate forum to ensure that these factors are thoroughly considered, we conclude that discontinuing use of the current PNPV calculation immediately is in the public interest because it can result in existing customers subsidizing new customers while significantly increasing reliance on fossil fuels. Given the recent changes to laws and policies discussed above, we conclude that the current PNPV calculation is no longer a valid line extension allocation method for Washington utilities or their customers.

29 Accordingly, we agree Staff's recommendation and require PSE, Avista, and Cascade to adopt an NPV calculation for natural gas line extension allowances. This methodology is simple to calculate because it requires a single assumption — the length of time the service will be installed — and relies on information from recent rate cases. Imposing a seven-year calculation timeline will reduce the line extension allowance for the residential customers of each company to approximately $2,000, which is a substantial, but gradual, decrease from current values.

30 Finally, Avista, Cascade, and PSE request that we provide a transition period for customers who have received approval for a line extension allowance under the current tariff. We agree that the companies should be authorized to exempt from the new tariff provisions those customers who have submitted applications that are approved or pending as of the date the revised tariffs become effective, as well as those customers who can demonstrate or attest that their applications have been submitted to local permitting offices. This exemption will expire on April 1, 2022.

FINDINGS AND CONCLUSIONS

31 (1) The Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including natural gas companies, and has jurisdiction over the parties and subject matter of this proceeding.

32 (2) PSE, Avista, and Cascade are natural gas companies subject to Commission regulation.

33 (3) This matter came before the Commission at its regularly scheduled open meeting on October 28, 2021.

34 (4) The PNPV methodology currently in effect for calculating natural gas line extension allowances significantly increases the margin allowances for each utility and thus increases reliance on fossil fuels contrary to state policy and laws.

38 (5) The NPV methodology proposed by Staff and calculated using a seven-year timeline provides a substantial but gradual decrease in natural gas line extension allowances that is better aligned with the legislature's direction and policy goals and is therefore in the public interest.

39 (6) The Commission should require PSE, Avista, and Cascade to file by November 17, 2021, tariff revisions that reflect the use of the NPV methodology using a seven-year timeframe for calculating natural gas line extension allowances.

ORDER

THE COMMISSION ORDERS THAT:

35 (1) Puget Sound Energy, Avista Corporation d/b/a Avista Utilities, and Cascade Natural Gas Corporation are required and authorized to file by November 17, 2021, tariff revisions necessary and sufficient to effectuate the terms of this Order.

36 (2) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective October 29, 2021.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner