

Breakout 2 (Ratemaking) – Compiled Notes

Natural Gas Fact Finding, Docket no. UM 2178

Workshop #4b, October 12, 2021

Questions

- What ratemaking tools would you recommend that Commission implement immediately, near-term, and long-term to facilitate meeting climate goals with least risk to customers?
- Why would you prioritize these tools over others?
- What should be the trigger for adopting a particular ratemaking tool?

Participant Responses

- The Risk Management Process has been around for a couple decades. It lists agreed-upon hazards, then rates each one for likelihood of occurring and consequences if it happens. This tool is employed by investors, military, industry, public health agencies, etc. Suggest this be adapted to Customer Cost Risk Analysis.
- Most tools mentioned don't do much or are inappropriate for the task at hand. Line extension and depreciation. The other tools are already in use. I think the avoided cost is a huge item that can be changed and is already under review. SB98 allows for mechanisms to promote renewable natural gas (RNG) and Hydrogen which is major.
- Pursuing a low-income rate to mitigate the cost impact of the CPP on this customers should be pursued in the very near-term. I'm interested to learn more about rate designs to improve efficiency, but NWN's fixed charge is already relatively low (\$8, I think), so I'm not sure if it makes sense to pursue that.
- I also think the rate design is structured to promote conservation but could go farther with a block structure with higher rates at the tailblock.
- Depreciation – assumption the life of asset is limited – this might not be the right assumption.
 - Might not be in best interest of customers
- Fixed costs are already really low. Costs are in variable side. Could do block rates to encourage reduced usage.

- Transport customers – utilities don't provide conservation programs for them, but if CPP makes utilities responsible for these emissions, then there is a clear avoided cost and which might open up options for programs
 - This customer type might have limited control over their usage
- Follow cost causation and allow reasonable return for utilities.
- Transport customers have not be part of utility sponsored conservation program, but already incentivized economically to conserve.
 - Potential can be hard to estimate, very specific to the application
- Shouldn't necessarily charge customers who use a lot per 'factory' – be careful when implementing these types of policies. The alternative might be that companies split up 'factories' to avoid this increase.
- Low-income rates to mitigate cost of CPP
- Accelerated depreciation has more immediate up-front costs
- An example of a successful cost risk analysis is the PGE decision to abandon the Carty #2 and #3 gas plants in the Boardman vicinity. PGE customers would have been paying off the investment cost for 40 years, when the cost of renewable wind and solar was already less than the cost of natural gas at that time. Screen for cost risk management.
- GeoTEE and low-income rates – could have far reaching implication if pilot is successful
 - Incentives that are best applicable for specific communities
- Avoided Cost drives conservation potential – this opens up channels and markets for solutions.

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- Attracted to line extension (LE) allowance to eliminate passing on costs to ratepayers, to send market signals that we don't want to expand systems and stranded future costs, impacting ratepayers in future.
 - Supports review of line extension in future. In cost recovery, center equity and low-income household assistance and avoid disproportionate impact
 - Energy efficiency incentives and making available to impacted communities, rate class
 - Through Integrated Resource Planning (IRP) process, make it more accessible. Health impact, lifecycle, full system costs (comprehensive) rather than carbon-free sources
 - Market extensions: eliminate gas appliance subsidies, line extensions

- Prioritize immediate emission reduction and customer benefits. Couple with affordable income low-income electrification and heat. Future/new infrastructure will add to future costs.
 - Depreciation modification—to ensure we don't lock in customer commitments that perpetuate status quo
 - Strongly supports points above. Need to act/implement quickly
 - Focus on what should be trigger for tool: Focus on what will achieve emissions reductions. Relative to goals, reiterate goal per SB 98. Any policies should require demonstration of that.
 - Supports line extension review by Commission. Current policy is to give only to customers who will pay more than their share—include carbon cost compliance? Currently seen as reducing rates for all customers, may review
 - Goal: decarb. Not a vacuum. Gas/electricity dual customers. Rate impacts across fuels is really important. Does need to address system-wide impacts.
 - Near-term: How to apply compliance costs of CPP program is near-term need and to be decided in rate design? How costs applied? Urgent as program kicks off January
 - Pilot electrification to benefit energy-burdened customers
 - Transport customer class through ratemaking to incent/opportunity: big possible short-term opportunity.
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- Line extensions are not a gas subsidy: they are formulated to cover the cost of the new customer. Accelerating depreciation will raise rates and can be a signal to the market, rate designs are small compared to the volumetric charge, opportunities with inverted rate blocking that di-incent usage at the margin, decoupling has been in effect for a long time, support DSM. Priority: rate design, especially for low income.
 - Shift the cost and risk of new gas infrastructure (including hook-ups) to new gas customers going forward. Stranded asset risks. Not subsidize future costs for new customers. Additional fees for voluntary connections because of new infrastructure costs. Depreciation can be a powerful way to make sure investments aren't long-term stranded assets, Schedules with other depreciation schedules, and hydrogen. Shield low-income customers and have a manageable and knowable cost of energy. Look holistically at energy+carbon for energy efficiency when considering the most reasonable investment for these outcomes. Careful consideration between consumer classes. Some types of customers can't be electrified, and may need different investments, make sure the different classes of customers bear those

- costs. Bring in best practices to get benefits and protections to everyone who is in need of them. Priority: line extension policy followed by depreciation schedules
- Line extension costs are opaque for customers. We need price signals and risks to be clearer. Price signals should include costs for stranded assets including any modifications for other future molecules. On-bill repayment mechanism for investments, including fuel switching investments. Be very careful on capturing low income. Deploy those resources to find those who need a low-income rate—just make it easy. Priority: line extensions followed by marginal cost signal.
 - Agree with second and third points above. PUC should look at incentivizing electricity hookups and send price signals to customers about the direction for energy sources.
 - For marginal cost, consider marginal in short term vs. long term. Properly identifying low income on their system—heating assistance on their bills is one way to identify them, but beyond that to capture low-income customers is more complicated and a lot don't self-identify. Priority Focus on line extension policies.
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- The line between programmatic and ratemaking is fine – the propositions could be programmatic – but intended to frame – rather than the PUC relying entirely on utility-by-utility IRPs the PUC needs to start with a framework that is independent of utilities – such as the state GHG reduction goal in order to evaluate the individual IRPs. Absent that, PUC rate making is like sitting in a dark room without looking at the world outside. The PUC needs to be informed programmatically to assess IRPs.
- Agree with planning and acknowledgement process, utilities were given the authority to operate as monopolies because they operate in the public interest. What is in the public interest is changing. 1) Need a low-income rate to protect them from decarbonization costs. 2) End Line extension allowances, existing ratepayers should not pay for new customers. Long term – explore performance-based mechanisms.
- Some sort of rate design that would promote energy efficiency on the grid. Having higher variable costs, reducing load and minimizing new infrastructure costs. Take the fixed cost out of energy efficiency, agree with low-income customer rate designs, focus of promoting energy efficiency will green up fuel supply. If that is the least carbon intensive solution, that would be the idea, rather than electrification. Shifting customers to electric grid and the costs is really greener is something that should be focused. Promoting the greening of RNG and hydrogen. Folks should be trying to use energy efficiency for energy reduction overall, not just transfer to electricity. Electric is less energy efficient for some end uses.

- Look and risk and cost from a greater societal perspective of the risk calculations. The governor's order is to reduce emissions, but it doesn't go far enough. Change line extension allowance policy. I'm worried about customers subsidizing growth of system. Low-income customers who cannot leave the gas system need to be protected. Acceleration of depreciation schedule of parts of the system that need to go. Longer term, a performance-based mechanism for which I'm intrigued but am concerned about serious decarbonization and it's not happening.
 - The PUC should focus on prudent investments given state policy implemented by DEQ and other environmental regulators. The PUC isn't equipped to be an environmental regulator and its core competency is guaranteeing just and reasonable rates.
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- Threshold question needs to be answered prior to ratemaking through integrated gas/electric planning. Need to demonstrate electric company's ability to meet load. What is cost effective way to meet carbon reduction goals?
- Need to consider customer choice. CO2 regulation, not customers, are driving us away from gas.
- Some RE generators unable to sell to electric utilities today. Causes concern about electric utilities' ability to support this transition.
- Need incentives to facilitate consumer choice. Current incentives do not allow fuel switching.
- Tools need to help consumers make transition to lower carbon options.
- Need to facilitate choice for low-income individuals. Including fuel switching.
- Need community-wide solutions to improve access to electric grid.
 - Microgrids for resilience and transition from natural gas.
- Who pays for this transition? Consumers? Utilities? State?
- Re: performance-based ratemaking: least cost planning obligation already provides incentives for utility.
- Don't want volatile energy markets, shortages, price spikes. These hit both the poor and the energy intensive manufacturers the hardest.
- Energy supply needs to be reliable. If we fail at that, policy goals will have backlash.
- Summer AC is becoming as important as winter heating.
- Takes time to make this transition, both utility infrastructure as well as individual customers making investments (can't pay for everything all at once).
- How is PUC engaging with tribes in this proceeding? Particularly tribal housing. Transition looks different in different communities.

- What timing is being assumed for electrification of home heating and electric vehicles (EVs) is being factored into the planning?
 - This PUC process is not currently accessible. Example: 9 am meeting not available to working individuals. More education may be needed.
 - Note that we shouldn't talk about ratemaking until after we have planning figured out
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- I'm concerned about any buildout of new infrastructure for Gas of any kind. This includes local infrastructure as well as larger pipelines. Scientists say we must nearly eliminate fossil fuels from energy, 50% by 2030 and 80% by 2050. New infrastructure to support gas just locks us into another decade or more of planet destroying energy.
- Feel like always attacking companies and they do provide a role- but they will be looking at stranded assets- want to make it easier for them to do what is aligned with goals- but need to find a way to put cost of carbon on new gas infrastructure installation- would help to make a cleaner choice- and to pay that off- right now not a lot of incentive to do a retrofit- some barriers
- Non-pipeline solutions, geographically targeted energy efficiency, demand-response, those types of programs are a little different than programs that the utility under the traditional model would be accustomed to pursuing- utilities earn off of capital investments- if pursue that, avoid those investments- are there ways to think about that that match incentives and match goals- are there ways to think about doing business with incentives that meet goals and that
- Start small and quickly with pilot projects, can PUC encourage some sort of programs that helps utilities look into clean fuels- could utilities- how to accelerate through pilot projects- could government play a key role, fleets, how could the state decarbonize and show- instead of residents and businesses
- Long-term view- where do we want to end up in terms of decarbonizing energy system- think about some of the solutions that have been proposed- get concerned- when look at supply and turn it into hydrogen and then supply that for building heating- already a path to do that more efficiently- not disparaging hydrogen or even synthetic methane or renewable natural gas- but in the long run- it seems that for buildings, the low-cost solution is electric heat pumps and need to focus, reliability needs to be maintained, need a business model change for gas utilities, means that at some point in time, will need to dismantle parts of infrastructure- need to implement tools such as accelerated depreciation

- OR, LDC, but in other states, electric and gas- see gas side playing a role in all areas- reliability as a key role- electricity outages- natural gas plays a key role in reliability- if move that, becomes winter peaking load- already resource adequacy concerns- when look at tools- already see the need for a look at low-income rates- push or direct to look at public purpose charges- expansion of energy for low- and moderate income (LMI) customers is crucial- need new methods and tools to help those customers weatherize, joint electric/gas planning- significant concerns from cost standpoint- esp. on transportation fuels; performance-based ratemaking (PBR)- still in infancy- could provide useful benefit to the utilities
- Near-term solutions- PBR- rate design that promotes efficient design
- Energy efficiency has come up several times- people are becoming more in tune with what happens- serve electric customers also- for Energy Trust, operate under the cost-effectiveness mandate- also a topic for discussion- ways whether a full pilot to investigate those benefits- but do have to operate under those guidelines; also interested in hearing in how the three gas utilities are approaching this differently, energy efficiency can be a solution, not going to be the biggest solution- doesn't have to be thought of- doesn't have to be a slow solution- a way that can be thought of as a more nimble partner, serve thousands of customers a year- retrofits don't necessarily have to be a slow
- Timescale that needs to be taken into account- customer preferences are going to change and evolve over time-
- Customers are going to respond to economics
- Longer-term issue of overall reliability of the system- not a valid reason for not moving forward with cost-effective electrification
- Decarbonizing through RNG etc, but won't stop the major market drivers, irrespective of gas utility preferences
- Significant storms during winter events- can still use gas appliances- but in storms where 10-day outages, how do you serve those customers?
- On the electrification aspect- heat dome- had to proactively shut off customers because couldn't handle the loads- hard to keep up demand on the housing sector- can't keep up
- Reliability component on the electric system is so important- not just G&T- also distribution system- talking about the system as a whole-
- will have to be selective about electrification- not do it in areas with reliability issues
- not all service areas are created equal- does electrification actually cause emissions reductions
- one last plug- LMI rates, want to explore with the Commission

- What ratemaking approach will help reduce carbon emissions?
- Low-income protections – in HB 4475 there is a specific process for that but it is fundamental
- Electric utility investigation – if electrification is the path, there needs to be analysis of the costs of needed electric resources (including wires); cost of electrification and understanding that; electrification may not make sense in all cases
- PBR might be midlevel impact
- Modified depreciation will have little impacts because it will increase rates with no carbon impacts; it is a shutdown the utility approach
- I favor electrification but am aware there are some substitute gasses that might be feasible for decarbonization
- Renewable natural gas should be a proportionate part of the discussion – not dominate it.
- Energy efficiency incentives; including electrification and low-income target
- Low – income; need to consider rates
- need line extension review
- Incentives for panel upgrades for low-income and multi-unit dwellings
- Make sure low income doesn't shoulder costs of transition
- Cost of electrification – dandelion energy in NY has made the cost of ground source heat pumps in NY
- Need more specific proposals on accelerated depreciation

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- Affordability and equity protections - affordable bills, new rate class or other solutions. Look at energy insecurity more broadly, behavior change (cooling and heating use related to affordability). Performance based mechanism, not increasing investment related to risk of stranded assets. Political spending should be closely evaluated by PUC. Rate design to improve efficiency and reduction of demand. Rate structures to encourage using less gas.
 - Looking at the low-income rate in the context of electric and gas. Decoupling and rate design for improving energy efficiency, might already be in place. Line extension policy - seeing a negative impact on that, as well as accelerated depreciation would increase costs. Maintain resiliency with different fuels, look at electric and gas, higher look before planning for other mechanisms
 - Making sure that we are looking at an all above approach to decarbonization, see Guidehouse modeling - pathway with hydrogen and RNG. Support large industrial

customers in meeting their goals - Energy Trust role potentially, collection mechanism. Value gas energy efficiency pathways including avoided GHG and avoided alternative mechanisms. Best cost path, support resiliency with targeted electrification

- Environmental justice perspective - are we making people's lives better. As increased electrification, ensure rates for those on gas are affordable. Indoor air quality impacts concerns. Need solution to address cooling - electrification is most impactful to help both cooling and heating. Affordable, low income, black and brown communities and rural
- UM 1893 - methodology for energy efficiency cost effectiveness - info submitted now not used until 2023 - lag of calendar years. More cost effective if used more quickly. Concern for moderate income customers - renters in particular often left behind.
- All tools on the table, expanding on low-income rate design (HB 2475) needs assessment in the works. Carves outs or discounts for CPP compliance. Not only low-income rate but also looking at additional considerations and carve outs. Moderate income, trying to figure out how to expand definition (net) to reach more that are struggling.
- Importance of supporting transition away from gas use that's affordable and safe, gas use not great for indoor air quality.
- Clarification around political spending - above and below the line - awareness of where costs lie