May 10, 2021

Under Pressure: Gas Utility Regulation for a Time of Transition

Boston Bar Association — Future of Gas Distribution in Massachusetts

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Under Pressure: Gas Utility Regulation for a Time of Transition

By Megan Anderson, Mark LeBel and Max Dupuy

Webinar at 2 pm on May 11th!
Key Issues and Trends

- More efficient gas usage
- Increasingly economic electrification
- More stringent climate policies
- Limited clean gas alternatives
- Health and safety concerns
A Framework for Regulators

Revitalize Gas Utility Planning

Enhance EE and Electrification Programs

Reform Gas Rate-Making
Equity Is Integral

- Robust and inclusive processes to ensure that everyone’s needs are considered and planned for
- Programs that are accessible and put disadvantaged communities at the forefront of the transition to clean energy
- Rate-making reforms can mitigate risk of unsustainable rate increases and avoid unfair bill impacts on low-income customers
Revitalize Gas Planning Process

Gas planning process

Lay the foundation
- Require inclusive, robust stakeholder process
- Set planning within policy context
- Coordinate with related processes

Develop a system map
- Assess existing infrastructure
- Identify current customer base
- Analyze demand, supply and risk

Explore alternative scenarios
- Develop scenarios
- Model scenarios
- Consider transition planning

Create action and transition plans
- Short-term action plan
- Long-term transition plan
  Prepare for next process
Enhance EE and Electrification Programs

- Eliminate barriers to electrification
- Expand and coordinate programs to reduce costs and improve equity
- Unlock non-pipeline alternatives
- Target electrification geographically to enable gas infrastructure retirement
Key Rate-Making Principles

• Effective recovery of revenue requirement
• Customer understanding, acceptance, and bill stability
• Equitable allocation of costs
• Efficient forward-looking price signals
• Achievement of public policy goals
  • Efficient competition and control of monopoly pricing
  • Reliable provision of service
  • Societal equity (e.g., universal access and affordability)
  • Environmental and public health requirements
Lower Rate Base and Decrease Risk of Rate Impacts

1. Increase customer contributions to line extensions
2. Accelerate depreciation timelines
3. Improve planning and decision criteria for new investments (and contracts)
4. Secure alternative funding sources or authorization for securitization
Customer Contributions for Line Extensions

• Line extension allowance formulas dictate how much a utility is allowed to invest in new infrastructure for new customers

• Updated calculations should reflect lower expected gas usage and probability of future disconnections from gas system
  ➢ Lower line extension allowances
  ➢ Conversely, higher contributions from new customers toward any new extensions
Pre-2021 Asset Book Value in 2041

2041 remaining book value for pre-2021 investments under two depreciation scenarios

- Recently added long-term assets: -72%
- Older long-term assets: -64%
- Medium-term assets: -100%
- Short-term assets: N/A
- Total assets: -73%

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Equitable Cost Allocation

- Customer-related costs should be determined using the basic customer method, not the minimum system method.
- Recovery of shared capacity costs should be balanced between energy throughput and peak demand based on load patterns.
- Program costs can be allocated based on the benefits provided by the investments.
  - For some programs, a split between electric customers and gas customers is appropriate when feasible.
Efficient Rate Design

- Higher prices in peak seasons are appropriate
- Even higher prices or incentives to reduce on peak days are appropriate for many customers
- Inclining block structures that vary by season can balance efficiency and concerns about bill impacts for low-income gas heating customers

<table>
<thead>
<tr>
<th>Distribution Rate</th>
<th>Summer</th>
<th>Winter</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 20 therms</td>
<td>$0.50 per therm</td>
<td>N/A</td>
</tr>
<tr>
<td>First 60 therms</td>
<td>N/A</td>
<td>$0.50 per therm</td>
</tr>
<tr>
<td>Additional usage</td>
<td>$1.29 per therm</td>
<td>$1.29 per therm</td>
</tr>
</tbody>
</table>
Change Utility Incentives

- Adopt decoupling using overall revenue target, not revenue per customer
- Implement performance-based regulation
  - Multiyear rate plans
  - Eliminate unnecessary trackers
  - Performance incentives for achieving important consumer and public policy outcomes
- Consider whether broader structural reforms for the gas utility will be necessary
About RAP

The Regulatory Assistance Project (RAP)® is an independent, non-partisan, non-governmental organization dedicated to accelerating the transition to a clean, reliable, and efficient energy future.

Learn more about our work at raponline.org