EXPANSION OF NATURAL GAS IN OREGON – REGULATORY INITIATIVES/MECHANISMS

Through Senate Bill 32, the Legislative Assembly "finds and declares that having access to natural gas is in the public interest and that the extension of natural gas pipelines and other infrastructure necessary for providing natural gas to areas that do not have access to natural gas is necessary for the communities of this state to preserve local economies, enlarge tax bases and generate additional economic opportunities." (emphasis added)

In an effort to effectuate the findings of the legislature, and consistent with the authority already held by the Public Utility Commission of Oregon (PUC), **the LDCs recommend that the PUC adopt the legislative policy statement listed above as its own policy.**

The LDCs further recommend that the Commission support the following items, understanding that a combination of those items may be necessary to fulfill legislative intent:

1. **Line Extension Policy Modification** – Recognizing the benefits that natural gas can provide to areas that don't have natural gas today, filings from the natural gas Local Distribution Companies (LDCs) which use allowable investment methodologies may take into consideration the longevity of new customers on the system (such as the Perpetual Net Present Value methodology). Such filings would be expected to increase the level of allowable LDC investment above the current level, which hamper potential expansion opportunities.

2. **Natural Gas Expansion Tariff Rider** – Filings from the LDCs may be developed to include mechanisms through which amounts could be accumulated for the purpose of funding any shortfall that may exist between the estimated cost to provide service to a new community or development, and the allowable investment as calculated in the LDC's tariff. The determination of the level of funding, collection and allocation of funds, etc. would be included in the LDCs filing.

3. **Portfolio Treatment of Allowable Investment** – Some natural gas line extensions cost less than what the maximum allowable investment supports. To that end, filings by the LDCs may include an application of "banked" amounts of any unused portions of line extension allowances to help, in conjunction with other funding sources, to make uneconomic line extensions financially viable.

4. **Geographical Surcharges** – LDC filings may request geographic-specific surcharges or tariff riders applicable only to customers in communities where natural gas expansions have been made. These surcharges would be in addition to the LDC's Commission-approved rates. The additional revenue from the surcharge rate would be applied towards the revenues expected from a system expansion, and would assist in making the economics of the expansion more favorable.

5. **Customer Assistance** – Not only are the costs associated with providing service to new communities a matter that requires special attention and consideration, the costs on the

customer side of the meter also need to be addressed. To that end, the LDCs recommend that the Commission encourage LDC filings to assist customers with the cost of conversion. Below are two examples that provide customer assistance, and which have been employed in similar form by other jurisdictions:

a. Excess Line Extension Allowance – LDC filings may include programs to make available to new customers any excess line extension allowance in order to help offset the cost of natural gas space and water heating equipment.

b. Fuel Conversions & Electric Avoided Costs – Energy efficiency incentives promoting the conversion of space and/or water heat to natural gas, if cost-effective as measured under the total resource and utility cost tests. Any potential rebates would further help to offset the costs associated with the conversion to natural gas consistent with legislative intent.