



July 26, 2016

Ms. Lisa Gorsuch
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Re: NWGA Comments on SB 32 Report to the Legislature, Final Draft – UM 1748

Dear Ms. Gorsuch,

Thank you for the opportunity to comment on the final draft of the Public Utility Commission of Oregon (OPUC) report to the Legislature regarding extending natural gas service to unserved communities in Oregon. The Northwest Gas Association (NWGA) offers the following comments for consideration.

We appreciate the time and effort that OPUC Staff, and all members of the Work Group put into this process. NWGA believes that the process provided an opportunity for meaningful conversation, and led to a greater mutual understanding of the important issues surrounding the topic of extending the natural gas system in Oregon. Although NWGA is disappointed in some aspects of the report, as described below, the process also points to positive opportunities.

To reiterate our prior comments, it is important that in passing SB 32 in 2015 the Legislature found and declared, "...that having access to natural gas is in the public interest and... is necessary for the communities of this state to preserve local economies, enlarge tax bases and generate additional economic opportunities." These findings and declaration provide a clear legislative emphasis on creating solutions to get natural gas to currently unserved communities.

NWGA's general takeaway from the Work Group process is that the OPUC Staff and customer representatives feel that, although the OPUC has some role to play in this regard, its role is limited and it may lack the authorities necessary to ensure that this system expansion happens. If that is accurate, we believe that the report should more clearly articulate this conclusion, given that it was the legislative genesis for requesting this report.

The NWGA's primary objective throughout this process has been to provide input and recommendations that would help the PUC be responsive to the Legislature's request by charting a clear path by which natural gas service could be extended to unserved communities that desperately need and want it. For instance, we submitted a proposal identifying a number of levers that would help facilitate service extensions including:

- 1) Modifying Line Extension Policies.
- 2) Allowing Natural Gas Expansion Tariff Riders.
- 3) Enabling Portfolio Treatment of Allowable Investments.
- 4) Approving Geographical Surcharges.
- 5) Providing for Customer Assistance.
 - a. Permitting the use of surplus line extension allowances;
 - b. Authorizing the use of electric energy efficiency incentives for fuel conversions.

The NWGA also offered the following suggestions to strengthen the PUC's initial draft report:

- 1) Incorporate recommendations of natural gas utilities per Section 2(1)(c) of SB 32;
- 2) Summarize successful efforts of other states.
- 3) Detail specific actions the PUC intends to actively pursue relative to extending service;
- 4) Include specific recommendations for legislative action to authorize new tools.

Although the final draft of the PUC's report includes these recommendations, it neither analyzes the NWGA's specific proposals, nor makes any recommendation or otherwise offers guidance to the Legislature or the utilities concerning how practically to extend natural gas service to Oregon's unserved communities. We believe the report could be improved by noting the following items:

- 1) There appeared to be a broad consensus that the OPUC should consider allowing utilities to modify their line extension policies to better take into consideration the longevity of customers on the gas system. This could help facilitate line extensions that both allow expansion of the system, and appropriately protect current customers.
- 2) The Work Group discussed that legislative action may be required to accomplish some of the recommendations offered by NWGA and its members, and that a broad effort among state agencies and other contributors may be a necessary part of accomplishing the stated goals of SB 32.

Finally, although we recognize that there was not unanimity among the work group, NWGA would like to note that we believe the OPUC may be able to take further steps to implement our recommended approaches within its existing authorities than is currently outlined in the report. We look forward to continued work on these topics to determine if some of these approaches can be implemented through discussions with the OPUC Staff and other stakeholders in the future.

Having commented on the substance of the PUC's final draft report to the Legislature, the NWGA respectfully offers a few edits for clarity and/or to correct mischaracterizations:

- 1) On page 6, the narrative states: "Today, more than 95 percent of the residents of Oregon's incorporated areas have access to natural gas." NWGA believes it would be appropriate to identify what the source for this statement is, as that was not discussed at the Work Group.
- 2) On page 6: "Two key factors affect correlate highly with an incorporated area's access to natural gas service. The first is population size."
- 3) On page 9, a number of edits which more accurately portray the principles in question:

Subject to the Commission's review, Oregon's natural gas utilities ~~decide~~ make decisions about whether or not to extend service into unserved areas. The utilities also establish ~~their own~~ line extension policies, which the Commission reviews and approves to help ensure that the rates paid by all ratepayers are fair, just, and reasonable.

The Commission and the utilities ~~does do~~ not require ~~a~~ new customers to pay all the costs associated with a line extension up front. Rather, ~~the Commission seeks to equitably divide these costs between new and existing customers based on the benefit that the line extension will provide to the utility system, including increased revenue generated by new customers~~ line extension policies allow the utility to invest some amount without a direct charge to the customer (usually referred to as a construction allowance), in light of the increased revenue the

new customer will generate through the rates they will pay in the future. The new customer pays for expected costs above the construction allowance through a direct charge (usually referred to as a contribution). Line extension policies are generally designed to ensure that new customers pay the construction and other costs associated with securing natural gas service, either through an up-front contribution or through their rates over time.

~~The amount of line extension costs recouped through the rates of existing customers is called a "construction allowance." The construction allowance is a cap on how much of the costs of a line extension is covered by all ratepayers. Any costs above the construction allowance must be paid by the new customers through a surcharge or through other funds secured by the utility or others to fund the expansion.~~

Subject to review and approval by the Commission, each utility sets its own formula for calculating the construction allowance. Each utility currently calculates this allowance differently. NW Natural's construction allowance for new residential customers is ~~three~~ five times the annual average ~~revenue margin expected~~ from a new customer. Avista's construction allowance for new residential customers is "three (3) times the estimated gross revenue as determined by the Company to be derived from bonafide applicants for such service[.]" Cascade's construction allowance for new residential customers is 4.5 times the estimated gross margin (gross revenue less cost of gas) to be derived from the new customer.

At any time, each utility can file a tariff to change its construction allowance formula. The utility must justify the change and show that the formula results in fair and reasonable rates for all ratepayers.

- 4) On page 11, under Estacada: "In ~~2015~~ 2005, Northwest Natural..."
- 5) On page 15, first bullet: "The natural gas utilities ~~argue~~ stated that the current construction allowance formulas likely fail to ~~capture all system benefits that accrue to existing ratepayers over the life of extension projects~~ account for the longevity of new customers on the system. The utilities recommend that other construction allowance methodologies - such as the Perpetual Net Present Value Methodology - should be used ~~considered~~ to calculate ~~the share of project costs paid by existing customers~~ construction allowances."
- 6) On page 15, third bullet: "...unused line extension allowances from successful line extensions ~~should~~ could effectively be banked..."
- 7) On page 15, fourth bullet: "Utility filings for rate recovery ~~should~~ could include targeted surcharges, as necessary, to cover shortfalls in project funding."
- 8) On page 16, first bullet (continued from previous page): "Use ratepayer funds to assist conversions to natural gas for specific end-uses. The gas utilities recommend that the funds dedicated for energy efficiency incentives or tied to unused line extension allowances ~~should~~ be used to help cover the cost of ~~conversions to natural gas space heat and water heating from other sources of energy~~ converting from electric space and water heating to natural gas, where these conversions result in cost effective energy efficiency savings;"
- 9) On page 17: "The SB 32 Workgroup ~~adopted~~ had a robust discussion on a variety topics. At a very high level, there was general agreement on the following findings and conclusions:"

- 10) On page 17, under Finding 2 Discussion: “Construction allowances may not reflect the full benefits to ratepayers of service extensions amount that can be invested in extending service to new customers, while holding existing customers neutral over time. Line extensions may be evaluated over too short a time period and other benefits may not be captured in construction allowance formulas.”
- 11) On page 18, Finding 3: “Customers located within the area that is served after expansion will receive different benefits from expansion (access to new service) than customers outside the newly-served area (access to existing service), and both sets of customers may be charged accordingly.” (these changes attempt to specify the differences which are mostly a matter of order, timing, etc.)

In conclusion, NWGA appreciates the efforts put into the Work Group by all involved. We view it as unfortunate, however, that the final draft of the PUC’s SB 32 Report to the Legislature does not provide substantive recommendations that the Commission or the utilities can undertake to extend natural gas to unserved and underserved areas as directed by the legislature.

We think the report could be improved by noting there was a broad openness to modifying utilities’ line extension policies, but do not believe that this will be sufficient to accomplish the legislative goals expressed in SB 32. The report should also make the apparent conclusions about the limited role the OPUC believes it can play in expanding the natural gas system more clear. In our view, doing so will help provide the legislature more clarity about the context that seems to underlie the approach taken in the OPUC’s report.

Thank you for your consideration,



DAN S. KIRSCHNER
Executive Director