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Oregon Public Utility Commission

Comments on UM 2178 Natural Gas Fact Finding Draft Report

Submitted via email by Laura Tabor, Climate Action Director

Thank you for the opportunity to provide comments on the UM 2178 Natural Gas Fact Finding Draft Report. The Nature Conservancy (TNC) appreciates the opportunities provided for stakeholder engagement in the workshop activity for this docket in 2021 and recognizes the critical role utility regulation plays in reaching Oregon's decarbonization goals and this report's importance in setting a clear trajectory for gas utilities in the state that aligns with these goals.

The Oregon Public Utility Commission (OPUC) has authority to implement a wide variety of regulatory tools "to shape and manage the policy risks of various compliance pathways for gas utility decarbonization" and thus, the OPUC has significant and unique opportunity to guide gas utilities' approach to decarbonization in the most cost effective and equitable direction possible. As an organization working to create a world where people and nature can thrive, TNC urges the OPUC to be decisive and proactive in its implementation of decarbonization policy—both for the sake of ratepayers and the health of the environment that sustains all Oregonians. Gas utilities need unambiguous direction from the OPUC—based in climate science and available technology and economic data—to act in the best interests of customers and the planet.

We recognize the challenge OPUC faces in balancing action and risk and appreciate the proactive recommendations regarding full cost of reducing demand, increasing access and information, coordination and application of systems thinking across gas and electric utilities, and adding requirements to IRP planning. However, we find that the draft report recommendations omit key actions and leave too much room for Oregon to continue on a path which, in the long term, will likely lead to unnecessarily high customer costs and noncompliance with the Climate Protection Program. We broadly share many concerns expressed by other climate and energy justice advocates and support the following recommendations detailed in other comments on this docket:

- Ensure the final report accurately reflects feedback from community-based organizations and climate advocates;
- Incorporate climate and public health risks in analysis and portrayal of costs and benefits of possible actions;
- Prioritize incentivizing efficiency and beneficial electrification for low-income ratepayers; and

- Recognize the current growth-oriented gas utility business model is incompatible with achieving climate goals and act swiftly to mitigate the effects of the necessary changes to come.

In particular, we would like to highlight issues in two areas where OPUC needs to improve upon the draft report.

OPUC needs to direct energy efficiency and non-pipe alternative programs to be fuel neutral and prioritize greenhouse gas emissions reductions, including through beneficial electrification. As other organizations have noted in previous comments in this docket, the most respected national, regional, and state-level climate mitigation models clearly identify electrification of space and water heating as the most cost-effective way to decarbonize buildings at scale. Relative to renewable natural gas, hydrogen, and gas-powered and hybrid heat pumps, electric heat pumps and heat pump water heaters are mature and widely available technologies with well-known installation and operating costs. While managing rapid electrification will require proactive electric utility planning, we note that with the proliferation of decarbonization studies analyzing electricity needs based on significant load growth from building and transportation electrification, this presents lower risk to customers than investing solely in alternative fuels with highly uncertain cost and availability trajectories. Utility planning is an area the OPUC can shape to meet these challenges; guaranteeing an affordable supply of emerging alternative fuels is not. Moreover, it is likely that most of the limited available supply of these fuels will be necessary to decarbonize hard-to-electrify end uses such as industrial and some commercial processes, making plans to procure alternative fuels an inadequate rationale for a business-as-usual approach to the rest of gas utility operations.

Given the pace and scale of decarbonization needed to limit the effects of climate change, we need all tools—including electrification—on the table to keep climate goals in reach. We suggest the following revisions to staff recommendations to ensure this is the case:

- Ensure efficiency programs, especially those targeting programs to low-income and environmental justice customers, require beneficial electrification where it is the best option for customers to decarbonize (e.g., space and water heating) and prioritize shell measures which reduce energy use and emissions from all fuels (“Direct ETO to target programs to LI and EJ”).
- Do not prioritize continued customer growth in energy efficiency programs (“EE measures that allow for customer hook-ups”).

We also emphasize the importance and urgency of staff’s recommendations regarding the following:

- Integrating full compliance costs—including avoided gas infrastructure renewal costs—into energy efficiency program avoided cost estimates, per the Regulatory Assistance Project.[1] (“Compliance costs into EE AC”)
- Facilitating data sharing between gas and electric utilities in planning processes; OPUC should also require more formal coordinated planning beyond sharing assumptions and data (“Utilities articulate electrification assumption in IRPs” and “Electrification info and data from DSP”).

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[1] Anderson, M., LeBel, M., & Dupuy, M. (2021, May). Under pressure: Gas utility regulation for a time of transition. Regulatory Assistance Project. p. 32

- Having independent, expert sources on cost projections and availability of alternative fuels ("Independent 3rd party analysis of key tech and market assumptions used by all 3 utilities").

Utility incentives need to better align with climate goals. We understand staff's concern that declining customer counts could lead to increased costs for ratepayers. However, there are many opportunities for OPUC to mitigate this risk—especially for customers already experiencing high energy burden—if all parties are willing to acknowledge the market and policy trends that make continued gas customer growth unsustainable. OPUC has a responsibility to deliver affordable energy services to ratepayers—not to maintain a particular utility business model or regulatory structure. We hope that OPUC can apply lessons learned from its experience with the telecom industry to overcome the "institutional bias toward recommendations that maintain customer counts" before gas utility customer counts begin declining. Oregon has been a leading state in adopting revenue decoupling, but the current revenue per customer model maintains an incentive for customer growth. Line extension policies and depreciation schedules also conflict with climate goals and CPP requirements. We see the following ways for OPUC to provide a clearer regulatory environment directed towards greenhouse gas emissions reduction and equitable distribution of costs:

- Immediate investigation of additional revenue decoupling and performance-based regulation options that could reduce the tension between policy goals and growth-oriented gas utility business models.
- Ensure "Line extension policy exploration" action eliminates existing customer contributions to new infrastructure; we also echo others' comments that this process should allow stakeholder input.
- Clarify recommendations to "Align near-term investments with CPP compliance" and "Explore linking CPP amortization to CPP performance" to ensure asset depreciation timelines align with likely obsolescence of some infrastructure due to long-term CPP requirements.

Thank you again for the opportunity to comment, and for your extensive work throughout this docket to address this important topic.