

CASE STUDIES: GAS LINE EXTENSION ALLOWANCES

GAS LINE EXTENSIONS: WHAT ARE THEY?

When new customers want to connect to the natural gas system, utilities have typically been allowed to subsidize some or all of the costs associated with building the new infrastructure by passing those costs onto existing customers. The policies that allow this, known as line extension allowances (LEAs), are used in both the gas and the electric sectors, and rely on the logic that expanding the service area will provide benefits to all customers. The economic justification is that by distributing the fixed cost of utility operation among more customers and greater throughput, service rates will be lower for everyone.

A CHANGING LANDSCAPE FOR THE GAS SYSTEM

Gas line extension allowances rely on continued expansion of the natural gas system to realize economic and public benefits, but continued system expansion is no longer a foregone conclusion. In fact, natural gas system expansion conflicts with many local, state, and federal decarbonization and electrification goals.¹ Where electrification now presents cleaner, more efficient heating options than natural gas, LEAs distort the market and may push customers towards fuel choices that do not serve their long-term interests. For states with decarbonization goals in particular, the market distortion caused by LEAs also increases stranded asset risk.

Gas line extension policies vary by state and may require different pathways to reform. In states with statutory obligations to provide gas line extensions, like New York, there must be legislative change. In other states, gas line extension policies may be reformed by amending utility regulations. Below are a variety of recent examples of states that have taken a critical look at their gas line extension policies:

California

On September 15, 2022, the California Public Utilities Commission (CPUC) issued a decision to eliminate gas line extension allowances effective July 1, 2023.²

California (cont.)

The CPUC initiated this rulemaking proceeding in January of 2019 to support California’s building decarbonization goals, established by Senate Bill 1477.³ In this proceeding, the CPUC found that eliminating line extension allowances would not only reduce greenhouse gas emissions, but also save ratepayers an estimated \$164 million each year. Notably, CPUC staff stated in their proposed decision that “any new gas infrastructure is likely to become a stranded asset.”⁴

Colorado

The Colorado Public Utilities Commission (PUC) is currently considering amendments to its gas line extension rule such that the full cost of line extensions would be the responsibility of the customer served by that new development.⁵ These amendments have been suggested in the larger context of a rulemaking proceeding initiated by the PUC in October 2021 to satisfy the requirements of Senate Bill 21-264,⁶ which requires Colorado utilities to file clean heat plans, and House Bill 21-1238,⁷ which modifies gas utility demand-side management programming.

New York

New York has a unique gas line extension policy called the “100-foot rule.”⁸ Under New York law, utilities are statutorily required to cover the cost associated with connecting a new natural gas customer if they are within 100 feet of the existing distribution system. To better align utility regulation with state climate justice and decarbonization goals, New York Senators introduced legislation, Senate Bill 8198 (2021), that would require the Public Service Commission to eliminate gas line extension allowances for new service. The bill has not yet been moved out of committee.⁹

Washington

In September 2021, the Washington Utilities and Transportation Commission (UTC) solicited input from regulated natural gas companies and stakeholders on its current methodology for calculating natural gas line extension allowances for three of four state gas utilities. The existing methodology assumed natural gas customers would be on the system indefinitely. Most commenters recommended discontinuing the current methodology at the time, and many suggested eliminating natural gas line extension allowances entirely on the grounds that the underlying assumption behind them directly contradicted state and utility decarbonization goals. The UTC ultimately decided to update the existing methodology to better align with the state's policy direction, but did not eliminate the allowances.¹⁰

¹ Clean Energy States Alliance, 2021, <https://www.cesa.org/projects/100-clean-energy-collaborative/guide/table-of-100-clean-energy-states/>

² California Public Utilities Commission, 2022, <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M496/K987/496987290.PDF>.

³ California Legislature, 2022, https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220SB1477.

⁴ California Public Utilities Commission, 2022, <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M496/K876/496876177.PDF>.

⁵ Colorado Public Utilities Commission, 2022, https://www.dora.state.co.us/pls/efi/EFI_Search_UI.Show_Decision?p_session_id=&p_dec=29265.

⁶ Colorado General Assembly, 2021, <https://leg.colorado.gov/bills/sb21-264>.

⁷ Colorado General Assembly, 2021, <https://leg.colorado.gov/bills/hb21-1238>.

⁸ New York Public Service Law, Section 31, <https://www.nysenate.gov/legislation/laws/PBS/31>.

⁹ New York Senate Bill 8198, 2021-2022, <https://www.nysenate.gov/legislation/bills/2021/s8198>.

¹⁰ Washington Utilities and Transportation Commission, 2021, <https://www.utc.wa.gov/casedocket/2021/210729/docsets>. See Order 01 dated 10/29/2021.

INTERESTED IN LEARNING MORE?

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