

# 2022 Affordability Rulemaking En Banc: Gas Ratemaking Strategies

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# Will all customers benefit?

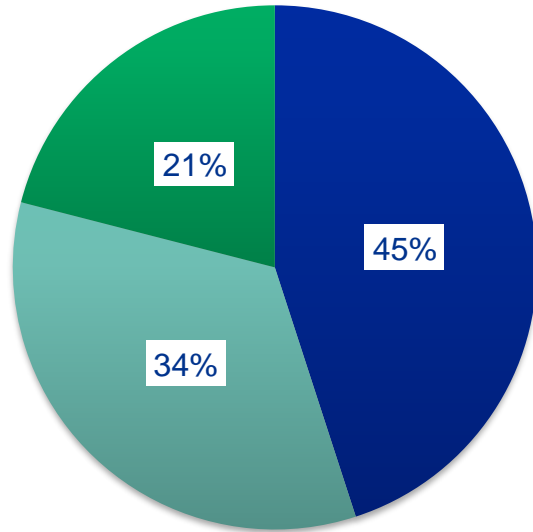
Traditionally, the state found that all customers benefitted from being interconnected to the same system.

Known as a “network benefit” – the state determined that the system was more affordable and more useful when we were all connected to it.

We now have climate considerations that are disrupting that principle

So do *all customers* still benefit?

# Gas Usage Does Not Match Revenue Requirement



- Electric Generators
- Commercial and Industrial
- Residential

- Approximately 2/3 of the utility revenue requirement comes from residential customers
- Ensuring affordability will require a **different strategy** for each major gas segment

# Energy Burden



- Energy burden is the percentage of gross household income spent on energy costs
  - According to U.S. Department of Energy, the energy burden facing low-income customers is 3x higher than the rest of the population
- Energy burden is for *energy services* i.e. both gas + electric

# What if we used energy burden as a metric?

How would the energy transition be different if we used energy burden to measure the equitable access to affordable, clean and safe energy services?

# Options to Ensure Affordability of Existing Infrastructure

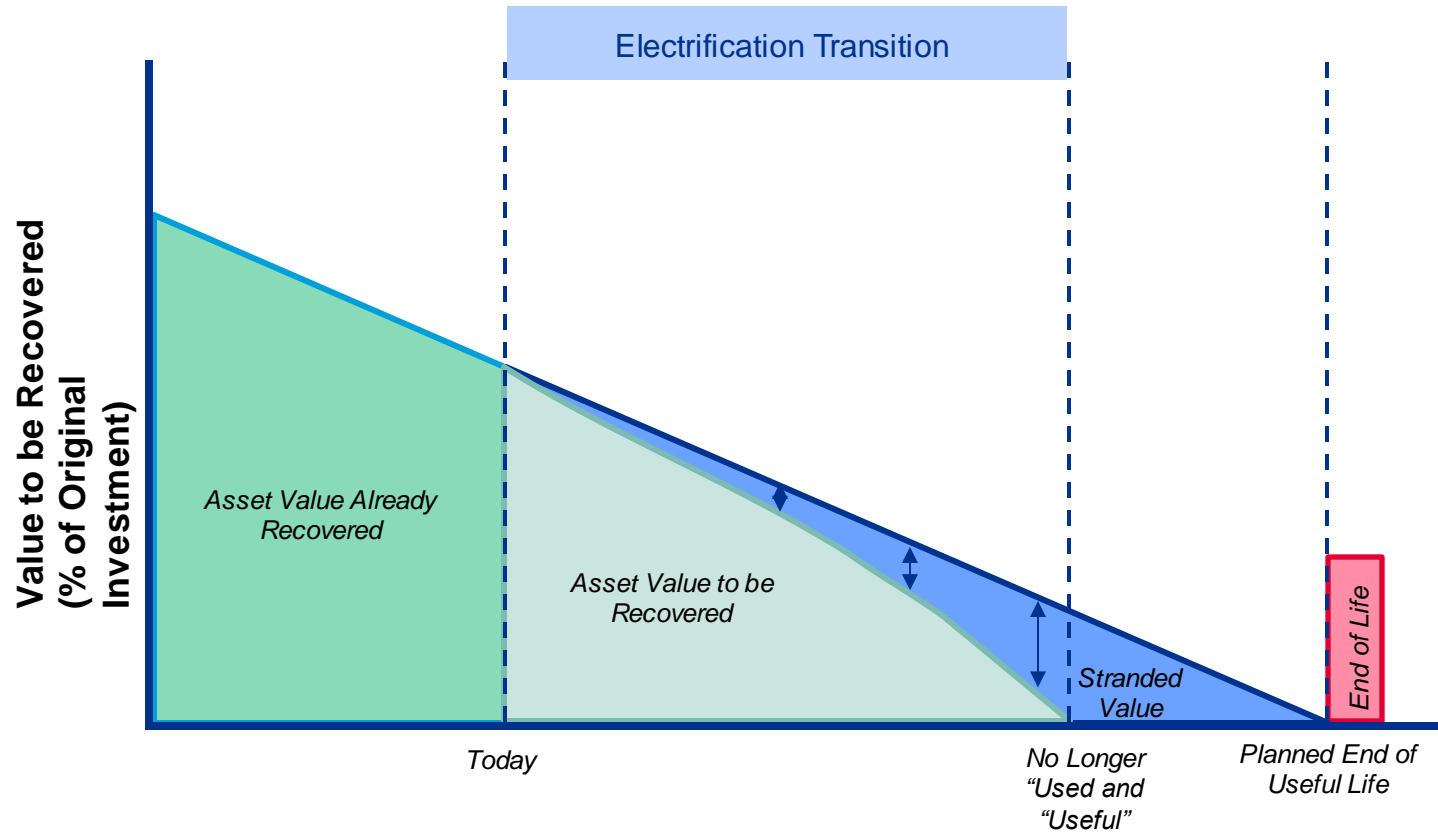
- Strategic Electrification
- Options for Early Retirement
  - Securitization
  - Accelerate Depreciation
  - Changes to ROE (gas and electric need not be the same)
  - Planning for Selected Decommissioning Now
- Is the Expected Useful Life Aligned with Policy Goals?



## Managing the Transition

Proactive Solutions for Stranded Gas Asset Risk in California

# Transitioning the Existing System



# New Investments Require Different Climate Considerations

**Step 1: Establish Inclusive and Transparent Decision Making**

**Step 2: Require Rigorous Long-Term Planning**

**Step 3: Coordinate Near-Term Decisions and Long-Term Goals**



## **Aligning Gas Regulation and Climate Goals**

A Road Map for State Regulators

January 2021

Available at: [Aligning Gas Regulation and Climate Goals report link](#)



# Natural Gas Planning

Step 1: Establish Inclusive and Transparent Decision Making	Step 2: Require Rigorous Long-Term Planning	Step 3: Coordinate Near-Term Decisions and Long-Term Goals
<ul style="list-style-type: none"><li>• Review and Clarify Existing Processes</li><li>• Ensure Utilities Provide Sufficient Information in Support of Requests</li><li>• Encourage Broader Stakeholder Engagement</li><li>• Consider Equity Input and Impacts</li></ul>	<ul style="list-style-type: none"><li>• Require a Long-Term Vision Aligned with Climate Targets and Other State Policies</li><li>• Define the True Needs of the System</li><li>• Plan for Projected Utilization Changes</li><li>• Conduct Robust, Transparent Gas Supply Planning</li><li>• Evaluate Resources Using the All-in Cost Metric</li><li>• Integrate Non-Pipeline Alternatives into Long-Term Planning</li><li>• <b>Establish a Gas Investment Priority Order</b></li><li>• Conduct Thorough GHG Assessments</li><li>• Ensure Gas and Electric Utility Coordination</li></ul>	<ul style="list-style-type: none"><li>• Connect Long-Term Planning to Cost Recovery</li><li>• Identify Changes to Existing Programs that Incent Gas Use and Expansion</li><li>• Design Targeted Non-Pipeline Alternative Programs</li><li>• Link Shareholder and Societal Value</li><li>• Align Depreciation Schedules with Climate Targets</li><li>• Evaluate Cost Allocation</li><li>• Explore New Tariff Services</li><li>• Scrutinize Affiliate Transactions</li><li>• Consider Pilots to Test Innovation</li><li>• Review Pipeline Replacement Programs and Surcharge Mechanisms</li><li>• Deploy Advanced Leak Detection and Data Analytics</li><li>• Review Lost and Unaccounted for Gas Mechanisms</li></ul>

# Gas Investment Priority Order

- Investment does not occur in a vacuum – what do customers need and will future investments be aligned with climate goals in a way that is just and reasonable?
- Non-Pipeline Alternatives to optimize total customer demand (includes Gas EE programs and Fuel Switching)
- Non-Pipeline Alternatives to optimize peak day constraints (includes Gas DR programs)
- Prioritize Elimination of Methane Leaks through ALD (include different treatment of Lost and Unaccounted for Gas)
- Gas Trading reforms to minimize total throughput (leverage AMI data)
- Unique investments to accommodate alternative fuels

## **A concluding thought...**

The market will not yield the “right” outcome on its own.

Current activities such as eliminating line extension allowances and targeting building decarbonization efforts are a necessary first step.

The state needs to establish a clear plan for the energy transition and then make policy choices to ensure that equitable access to an affordable, clean and safe energy future.

**Thank you!**

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