

# Oregon Citizens' Utility Board

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July 20, 2022

Via Email

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## **Re: Moratorium on New Gas Hook Ups**

The Oregon Citizens' Utility Board (CUB) represents the interests of residential utility customers, with a primary focus on the for-profit utilities regulated by the Oregon Public Utility Commission (PUC), including NW Natural.

CUB is concerned that continuing to grow the natural gas system will harm the current and future customers of NW Natural. Adding gas service to new buildings increases the cost of service to existing customers and adds additional risk to customers in the future. Customers who are unable to switch away from gas service in the future, including low-income households and renters, could be particularly hard hit by increasing costs of the gas system.

### **1. Growing the gas system by adding new customers increases costs to existing customers.**

Climate change requires a reduction in the combustion of fossil fuels, including natural gas. The state's Climate Protection Program requires that gas utilities reduce their GHG emissions by 50% by 2035. It is important to recognize that this 50% reduction is from a historic baseline. From this baseline, NW Natural must reduce its emissions by 1.03 million metric tons. However, if NW Natural continues to add customers to its system, it will have to reduce emissions by 1.42 million metric tons<sup>1</sup>. Instead of a 50% reduction in baseline emissions, to accommodate load growth NW

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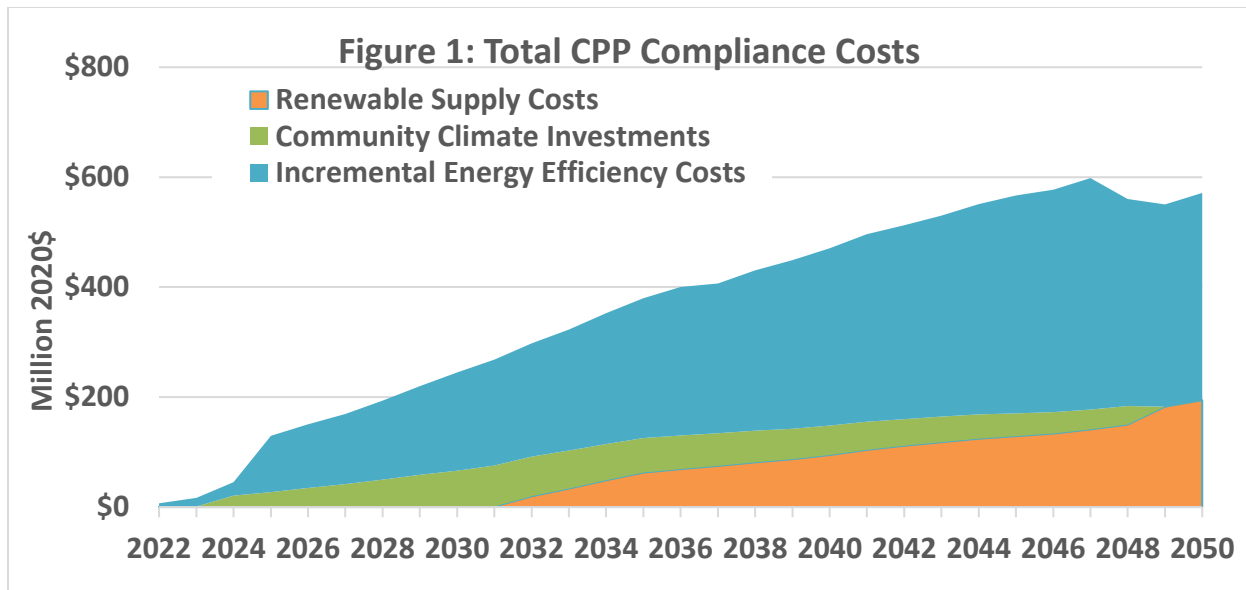
<sup>1</sup> Customer growth projections are from NW Natural's filing in Oregon Public Utility Commission (OPUC) Docket 2178, Natural Gas Fact Finding.

Natural will require a 69% reduction in baseline emissions, which will significantly increase the cost of compliance.

<b>Emission Reductions (metric tons)</b>	
Baseline residential emissions	2,050,672
Reduction required	1,025,336
Percent reduction required	50%
Emissions associated with growth	394,590
Reduction required with growth	1,419,926
Percent reduction required	69%

**2. Limiting growth of the system will reduce compliance costs.**

Complying with DEQ’s Climate Protection Program will require a reduction in natural gas demand (therms). The choice is between reducing therms in a manner which reduces capital investment and saves money versus reducing therms in a manner which requires incentives and costs money. The PUC asked gas utilities to submit plans that demonstrated their ability to comply with the CPP. NW Natural’s compliance strategy relies heavily on reducing the consumption of natural gas through large increases in spending on energy efficiency<sup>2</sup>.

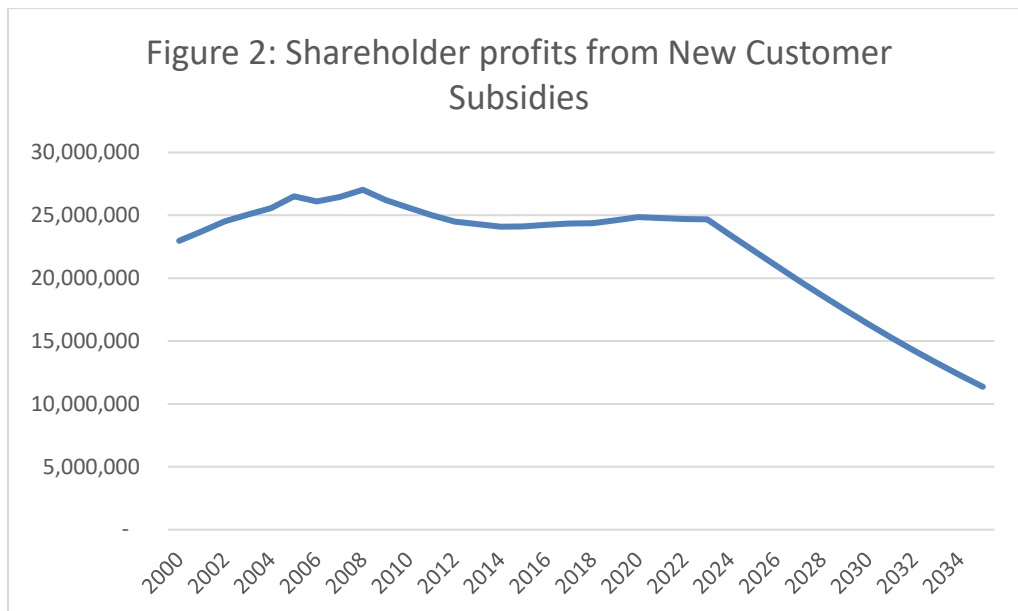


But if there is a need to reduce demand for natural gas, there is a greater benefit from reducing demand by not adding new customers over expanding energy efficiency programs. This is because new customers require a subsidy to connect to the system. Let me provide a simple mathematical example: A new customer with gas space heating will consume 600 therms of gas per year. Hooking up this new customer requires a \$2,875 subsidy. So avoiding a new customer reduces demand by 600 therms and saves an additional \$2,875. Compare this to an energy efficiency program that gets 60 customers to reduce their usage by 10 therms/customers. Both programs save 600 therms. But one also saves \$2,875 by eliminating a subsidy. The other requires incentives to get customers to implement the energy efficiency investment.

<sup>2</sup> OPUC docket 2178, NW Natural Compliance with CPP presentation, September 14, 2021, Slide 49

### 3. Shareholders profit from adding new customers.

Not growing the system is a lower cost method to reducing emissions, but it impacts shareholder profits. Shareholders earn a profit on the \$2785 subsidy to connect each new residential customer. (In the world of utility regulation, this subsidy is called a line extension allowance). Because each new subsidy is charged to all customers and is spread over 58 years, each subsidy represents a 58-year string of profits. While the profits from each individual customer subsidy is small, with 10,000 new customers added each year, it adds up quickly. CUB estimates that NWN is currently earning about \$25 million per year in profits from new customer subsidies<sup>3</sup>. If we ended these subsidies today, the string of profits associated with adding new customer would quickly begin to decline.



### 4. Stranded cost risk associated with subsidy and length of life.

NW Natural assigns a 58-year useful life to the pipe which connects a home to the gas system and the cost of that connection is spread over 58 years. This means that a new home added to the gas system today will be a cost through 2080. And if that customer converts to an electric heat pump before 2080, it will leave a stranded cost on the system, a cost that a utility is seeking to recover even though it is no longer productive.

CUB is concerned that the cost of gas provided by NW Natural will increase as the company adds hundreds of millions of dollars in new spending related to energy efficiency and alternative fuels as it attempts to comply with the CPP. As the cost of gas increases, many customers may opt to convert to high-efficiency heat pumps which provide efficient heating and cooling. This could create a significant problem for the customers who are left – customers who cannot afford a heat pump, or do not control the heating equipment in their building but are now asked to pay for, not just the high cost of compliance, but the stranded costs associated with customers who have left the system.

<sup>3</sup> OPUC Docket UG 435, CUB Rebuttal Testimony, page 18

## 5. When you are in a hole stop digging.

Will Rogers once said that “if you find yourself in a hole, stop digging.” This is where we are now. We have a gas system that must reduce emissions by 1.03 million metric tons within 13 years. If we keep digging – adding new buildings to the gas system – we will have a gas system that has to reduce emissions by 1.42 million metric tons.

Limiting the expansion of the gas system by limiting new customers hooking up to the system reduces emission compliance costs and benefits existing NW Natural customers. It is why CUB, as a ratepayer advocate, is submitting these comments.

CUB’s view is based on our analysis of the current economics of reducing emissions, and in particular the cost of emissions reductions, the level of subsidy required for new customers, and the long useful lives of gas pipelines. It is possible that there will be significant technological advances in alternative fuels which change compliance costs. It is possible that the PUC will reduce and eliminate the subsidy that customer pay to support growth of the system. It is possible that the PUC will reduce the useful life of gas equipment so the threat of stranded costs is reduced. But, under current conditions, CUB feels that a moratorium on new residential gas connections is reasonable, is prudent, and will provide benefits to customers of gas utilities.

Thanks you,



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