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The case for natural gas transition planning

How policymakers and advocates can initiate regulatory proceedings and maximize their effectiveness

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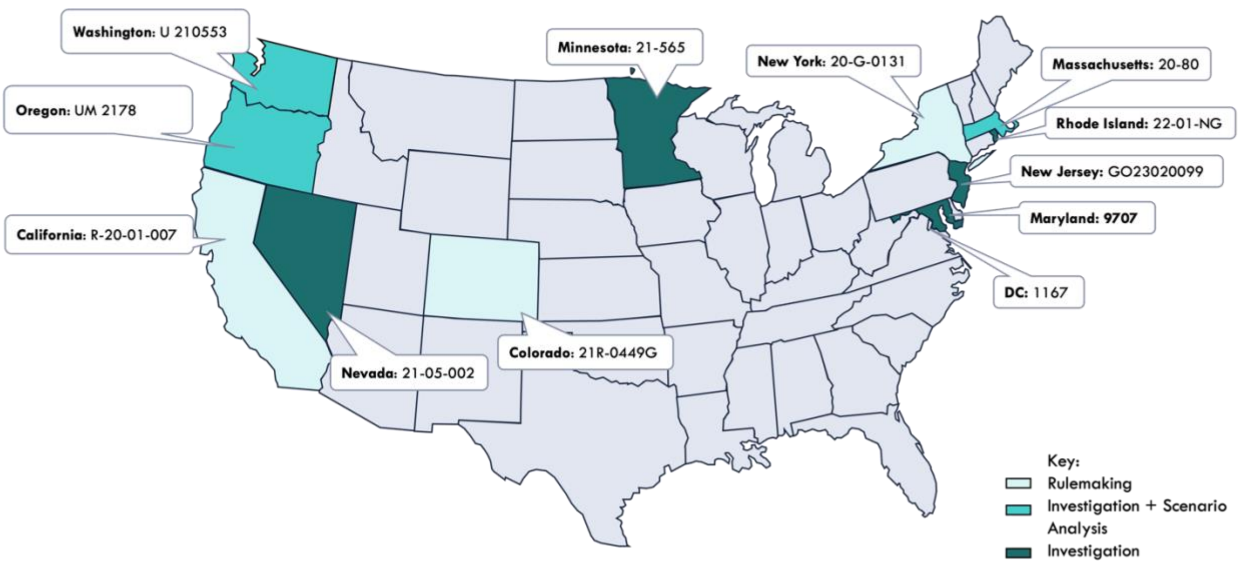
Reducing reliance on gas pipelines is an essential step for achieving climate goals that simultaneously protects residents from escalating system costs and volatile commodity prices.[1] An equitable and managed transition requires careful planning that acknowledges the complexities of the current system and addresses the needs of the workers and residents who rely on it. Eleven states and the District of Columbia have initiated this process by opening gas transition proceedings to bring utility regulation and planning in line with state policy goals, recognizing that it's most efficient and cost effective to start planning today.[2] These existing proceedings provide a roadmap for other states across the country.

One third of the US population lives in a state with a gas transition proceeding



[1] Gas prices are more volatile than electricity prices. Sharp increases in residential gas prices hit low-income and energy-burdened customers particularly hard, as these customers spend a disproportionately high share of their income on energy bills. Talor Gruenwald, "Reality Check: The Myth of Stable and Affordable Natural Gas Prices," *RMI*, November 17, 2021, https://rmi.org/the-myth-of-stable-and-affordable-natural-gas-prices/.

[2] A "gas transition proceeding," as detailed in this memo, broadly refers to any regulatory proceeding that works to align gas utility operations and planning with state policy goals.

Business-as-usual utility regulation poses significant risks

Policymakers and regulators must confront the future of a still-growing gas system and prepare to reverse that growth as they work to achieve their state's climate goals in an equitable and orderly manner. This includes the recognition that business-as-usual utility regulation in the face of increasing system costs and declining throughput poses the following risks:

- **STRANDED ASSETS:** Gas distribution system expenditures quadrupled between 2010 and 2021, rising to $22.4 billion per year, with the bulk of these costs passed to customers.[i] As customers use less gas, utilities are pressed to recover their infrastructure investments across lower gas sales. The resulting upward pressure on gas rates further incentivizes customers to reduce or eliminate their gas usage. This feedback loop jeopardizes utilities' long-term ability to cover the cost of these gas system investments.
- **ENERGY JUSTICE AND EQUITY:** The pollution that stems from combusting fossil fuels, both indoors and outdoors, disproportionately harms low-income customers and communities of color.[ii] In addition, these customers are the most likely to remain reliant on an increasingly unaffordable gas system. Thoughtful planning and policy support are thus needed to ensure low-income customers can access cleaner, healthier alternatives to gas.
- **EXCESSIVE COSTS:** Utility regulators typically handle electric and gas planning separately. This siloed planning can yield excessive costs for ratepayers that could otherwise be avoided through better integrated resource planning that optimizes new investments across systems.
- **DISORDERED TRANSITION:** Without careful planning, the transition away from gas could leave the utility workforce without viable career transition pathways and amplify the risks to utilities' financial stability.

Utility regulation and planning must adapt to align with state policy goals

Today's regulatory process must evolve to reflect changing circumstances. A robust gas transition framework addresses the risks outlined above through three levers: updating key policies, strengthening long-term infrastructure planning, and protecting customers today and in the future.

1. **UPDATE KEY POLICIES:** Regulators should reevaluate policies that incentivize the use of gas (e.g., gas line extension allowances), amend utilities' "obligation to serve" to enable decommissioning while protecting customers' right to safe and reliable energy, and expand support for customers transitioning from gas.
2. **STRENGTHEN INFRASTRUCTURE PLANNING:** Gas utilities need to account for the long-term impacts of climate policies and shifting market forces. Historically, the level of transparency and regulatory oversight of utilities' infrastructure plans has varied widely and is inadequate to meet the scale of change utilities face over the coming decades. Infrastructure planning should both be integrated across energy systems (e.g., gas, electric, and transportation) to account for cross-sector interdependencies and incorporate alternatives to gas infrastructure investments (e.g., targeted energy efficiency or electrification).
3. **PROTECT CUSTOMERS:** As the transition off gas accelerates, regulators will need to take steps to protect customers, particularly those most vulnerable to rate increases. Regulators can do this by recalibrating rate design and implementing alternative depreciation rates as customer bases shrink and shift.

There are a variety of pathways to launch a gas transition proceeding

Gas transition proceedings can be launched through several avenues, though it's important to note that each of the pathways listed below may not be available in every state:

- The **public utilities commission (PUC)** either (1) opens an investigation into the gas transition, or (2) launches a rulemaking proceeding that establishes new rules to address some or all of the gas transition framework outlined above.
- The **legislature** passes a law directing the commission to open a proceeding to address gas transition issues.

- The **governor** issues an executive order directing the commission to open an investigation.
- The state **attorney general or consumer advocate** petitions the commission to open an investigation.
- **Advocates** can raise gas transition issues in regular proceedings, such as rate cases, energy efficiency program dockets, and integrated resource plans. Advocates can also exert public pressure on other actors (e.g., state representatives or the governor) to exercise their authority to direct the commission to engage with these issues.

As noted in the advocate-led pathway, gas transition issues can arise in many existing gas utility proceedings, from rate cases to energy efficiency proceedings. While some policy changes can be implemented through rate cases or similar proceedings, addressing needed changes more comprehensively (i.e., for all relevant utilities) through a dedicated proceeding can be more efficient and fruitful. Further, the involvement of diverse stakeholders tends to be better served by a higher-level policy proceeding rather than multiple complex and resource-intensive rate cases or similarly siloed processes.

The leadership of the commission, as well as the actions of utilities and stakeholders can shape the success of gas transition efforts. Leading commissioners in a handful of states, like Colorado, have played an outsized role in advancing successful proceedings focused on forward-looking, equity-focused solutions.

How to frame a gas transition proceeding

1. **EXAMINATION AND IMPLEMENTATION OF KEY POLICIES:** As outlined above, a gas transition proceeding should both amend current policy at odds with state policy goals and establish the structures needed to facilitate an orderly transition away from gas. Specific policies essential to a robust gas transition proceeding include:
    - *Obligation to serve.* In some states, utilities' obligation to serve customers is defined in terms of specific resources (e.g., electricity, gas, etc.). These definitions can both prevent a utility from shifting the service it provides (e.g., from gas to thermal energy) and require a utility to invest in costly system expansions upon the request of a single customer. Regulators should examine their definition of utilities' obligation to serve and make needed changes to ensure utility systems can evolve while maintaining access to essential energy services.[3]
    - *Gas line extension allowances.* Line extension allowances incentivize the expansion of utility infrastructure by using ratepayers to offset the cost associated with connecting a new customer. This policy is increasingly challenged by expected reductions in future gas use, the growing costs of maintaining the existing distribution system, and the imperative to phase out fossil fuels.[iii]
    - *Gas appliance incentives.* As with line extension allowances, incentives to install new gas appliances directly contradict the broader imperative to cut emissions and cease expansion of the gas system. Energy efficiency and appliance incentive programs will need to shift the use of ratepayer funds away from gas-specific measures, while increasing support for customers making the switch away from gas appliances.
    - *Geographically targeted electrification.* One tool to manage costs as gas use declines is to avoid or reduce investments in gas infrastructure where possible through geographically targeted electrification (e.g., at the street, neighborhood, or town level). This strategy includes the implementation of targeted energy efficiency and electrification measures to avoid the replacement, repair, or expansion of gas infrastructure, as well as full retirement of a segment of the gas system. Deploying targeted electrification at scale requires new processes, as well as changes to existing policies (e.g., the obligation to serve). The development of early targeted electrification projects will

[3] In some states, the utility's obligation to serve is defined in statute and cannot be changed by regulators absent legislation. Where this is the case, regulators can work with stakeholders through a gas transition proceeding to develop proposed amendments to statute for legislators to consider.

generate key learnings that inform the long-term utility planning process ultimately required for deployment of this solution at scale.

2. **CLEAR GOALS:** Defining the objectives of a gas transition proceeding at the outset provides stakeholders with a shared understanding of the end goals.[iv] A state's motivations for launching this process will vary. For example, these can include emissions reduction targets, as in Rhode Island, or be more broadly focused on ratepayer protection through stronger transparency around utilities' spending and long-term plans, as in Nevada. Critically, the directive to launch a proceeding should clarify where and how key policy decisions will be made, whether through the commission or by some other set of decisionmakers.
3. **STAKEHOLDER PROCESS:** Decisionmakers must balance the need for progress with the time required to enable stakeholder education and robust participation, particularly given the breadth and complexity of topics that arise when considering the gas transition. In processes where issues are broken out into distinct phases, decisionmakers should be attentive to the need to connect discrete phases to an overarching vision for the entire process. The key components of the stakeholder process are education and structure:[v]
   - *Education and outreach.* A gas transition proceeding can span a broad range of topic areas. Engaging with diverse stakeholders requires creating a foundational level of shared understanding, given the fact that some stakeholders may be new, while others may be subject-matter experts.
   - *Structure.* It is incumbent on regulators to ensure those most impacted by the future of the gas system are part of the decision-making process, regardless of their current familiarity with regulatory proceedings. Traditional regulatory processes are legalistic and can pose significant barriers to participation for non-utility and non-agency stakeholders. In crafting the stakeholder process for a gas transition proceeding, decisionmakers should build in pathways for facilitated or less formal methods of participation.

Spotlight on Colorado's clean heat legislation and gas rules

Colorado's Clean Heat Bill (SB 21-264), passed in 2021, set emissions reduction targets for gas utilities and directed the PUC to create rules for how utilities will meet state targets.[vi] The legislation:

- Defined the overarching goal of reducing gas utilities' GHG emissions in line with the state's long-term emissions targets.
- Set a clear process outcome and deadline, directing the commission to publish new rules by a certain date, roughly 18 months after the bill passed.
- Included a directive to maximize customer benefits, protect particularly vulnerable populations, and manage the costs and risks borne by customers.

In addition to strong legislation, Colorado's gas transition planning efforts were bolstered by the PUC's leadership. The commission and stakeholders had been gathering information and discussing the regulatory implications of the gas transition for over a year prior to the bill's passage.[vii] The PUC also opened an investigatory docket after the bill passed, specifically to gather additional stakeholder input to inform the commission's initial draft rules.

In crafting the rules to implement the Clean Heat Bill, the commission incorporated an updated approach to utility planning that would enable greater oversight and customer protection as utilities pursue emissions reductions.[viii] Together, these rules form the Gas Infrastructure Plan process. The first Gas Infrastructure Plan and Clean Heat Plan were filed this year by Xcel, the largest gas utility in the state.

Colorado's example demonstrates the value of deep, long-term engagement on these issues by the commission, as well as the power of non-adjudicated investigatory proceedings to lay the groundwork for robust future decision making.

[i] "Gas Utility Construction Expenditures by Type of Facility 1972-2021," *American Gas Association*, 2023, https://www.aga.org/wp-content/uploads/2023/01/Table12-1.pdf.

[ii] Yu Ann Tan and Bomee Jung, *Decarbonizing Homes: Improving Health in Low-Income Communities through Beneficial Electrification*, RMI, 2021, https://www.rmi.org/insight/decarbonizing-homes.

[iii] Abigail Lalakea Alter, Sherri Billimoria, and Mike Henchen, *Overextended: It's Time to Rethink Subsidized Gas Line Extensions*, RMI, 2021, https://www.rmi.org/insight/its-time-to-rethink-subsidized-gas-line-extensions/.

[iv] Cory Felder, Jessie Ciulla, Rachel Gold, and Jacob Becker, *Regulatory Process Design for Decarbonization, Equity, and Innovation*, RMI, 2022, https://rmi.org/insight/puc-modernization-issue-briefs/.

[v] Dan Cross-Call, Cara Goldenberg, and Claire Wang, *Process for Purpose: Reimagining Regulatory Approaches for Power Sector Transformation*, RMI, 2019, https://rmi.org/insight/process-for-purpose/.

[vi] S.B. 21-264, 72nd Leg., (CO 2021), https://leg.colorado.gov/sites/default/files/2021a_264_signed.pdf.

[vii] Colorado Public Utilities Commission, Proceeding No. 20M-0439G, https://www.dora.state.co.us/pls/efi/EFI_SEARCH_UI.SEARCH?p_session_id=&p_results=Documents&p_proceeding_number=20m-0439g&p_document_type=Choose%20One&p_docket_status=Choose%20One&p_decision_type=Choose%20One&p_decision_author=Choose%20One&p_auto_search=Y.

[viii] Colorado Public Utilities Commission, Decision No. C23-0117: Commission Decision Addressing Applications for Rehearing, Reargument, or Reconsideration of Decision No. C22-0760, Proceeding No. 21R-0449G, February 24, 2023, https://www.dora.state.co.us/pls/efi/EFI_Search_UI.Show_Decision?p_dec=29807&p_session_id=.