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**Testimony in Support of
LD 2077, “An Act Regarding Customer Costs and the Environmental and Health
Effects of Natural Gas”
January 23, 2024**

Senator Lawrence, Representative Zeigler and distinguished members of the Joint Standing Committee on Energy, Utilities, and Technology,

My name is William Harwood, here today as Public Advocate, to testify in enthusiastic support of LD 2077, “An Act Regarding Customer Costs and the Environmental and Health Effects of Natural Gas.” This bill gives us the opportunity to hit the “pause” button on further expansion of natural gas within the State while we study what role we want gas to play in our energy future. We thank Representative Zeigler and Senator Lawrence for sponsoring this important piece of legislation.

The time has come when we can no longer allow expansion of the natural gas industry in Maine to be “business as usual”. If we are serious about meeting our climate change goals, we must begin the discussion of phasing out our reliance on all fossil fuels, including natural gas.

This bill basically proposes a pause in expansion of gas while we study the future of natural gas in Maine. Specifically, Section 1 of the Act prohibits gas utilities from charging existing customers for the costs of new mains and service lines needed to expand service to serve new customers. Such new infrastructure should be paid by the new customers requesting service. Section 2 of the Act would prohibit the expansion of natural gas service into any municipality that does not currently have such service. Section 3 of the Act prohibits gas utilities from offering “promotional allowances.” Section 7 directs the PUC to study the rate impact of future expansion of natural gas in Maine.



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I want to emphasize that this bill focuses on expansion of the gas industry. This bill is not intended to interfere with the ability of any gas utility to continue to supply gas to its existing customers. The past investments that the utilities and ratepayers have made in order to deliver and use gas will not be disturbed by this legislation. However, the State should address the important question of whether new gas customers should be added.

I am not expert on environmental policy and how best to reduce GHG emissions necessary to achieve our climate goals. However, it is pretty obvious that we need to phase out our reliance on fossil fuels and phase out the release of methane from natural gas. How quickly that happens, I will leave to others. But we should not ignore the potential impact on consumers resulting from this critically important shift. And we should not ignore the potential for large amount of unrecovered costs that may be “stranded” due to phasing out natural gas. More specifically, we cannot leave the most vulnerable residential ratepayers holding the bag when those customers with resources and alternatives abandon natural gas in favor of a cleaner energy source.

The economics surrounding the sale of oil is not regulated by state government, but the sale of natural gas is. When we designated natural gas providers as public utilities, like electric and water utilities, the State entered into a regulatory bargain with those gas utilities that carefully laid out the utility’s rights and responsibilities. More recently, the PUC has questioned the regulatory bargain with gas utilities by suggesting shareholders bear some of the risk of financial losses resulting from competition. Now that the climate crisis is a major emphasis of State policy, we need to revisit that regulatory bargain and make sure that it is compatible with our climate strategy. If not, we need to change it.

Maine is not alone in facing this challenge. Many other states are addressing it. Attached is a Summary from a recent Order of the Massachusetts Commission concluding



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that removing incentives to add new customers is in alignment with that State's GHG emission reduction targets and reduces the risk of future stranded costs.

Today, some Maine gas utilities promote themselves as "growth utilities". This ought to ring an alarm bell for all of us. In the case of Summit Utilities, it spent \$300M building a gas distribution system designed to serve 15,000 customers. After 10 years of aggressive marketing, it serves less than 5,000 customers. This has created a serious financial problem for the utility. While its investors may want to see Summit "grow" its way out of this dilemma, we need to stop and ask whether doing so is in the public interest.

To boost sales, some of the gas utilities have entered into special rate contracts with large industrial users whereby the utilities deliver gas at a rate that barely covers the variable or incremental cost of service, a price far below the full cost of serving these customers. This practice may be good for increasing sales volume, but it raises the troubling question of whether it is good public policy for the environment or, more specifically, for residential ratepayers who may be expected to make up the revenue shortfall needed to cover the full cost of serving these industrial customers.

Currently, approximately 75% of all the gas delivered by Summit Utilities is delivered to eight industrial customers that are all served at discounted rates pursuant to special rate contracts. How many more of such deals are going to be negotiated before we say enough is enough.

In conclusion, I urge you to support this important legislation. We can't let the gas utilities continue their "business as usual" approach to expansion and ignore the economic consequences. Thank you for your time, attention, and consideration of this testimony. The Office of the Public Advocate looks forward to working with the Committee on LD 2077



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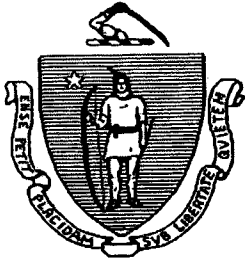
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and will be available for the work session to assist the Committee in its consideration of this bill.

Respectfully submitted,

William S. Harwood

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The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 20-80-B

December 6, 2023

Investigation by the Department of Public Utilities on its own Motion into the role of gas local distribution companies as the Commonwealth achieves its target 2050 climate goals.

ORDER ON REGULATORY PRINCIPLES AND FRAMEWORK

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SUMMARY

The Department of Public Utilities (“Department”) announces a regulatory framework intended to set forth its role and that of the Massachusetts gas local distribution companies (“LDCs”) in helping the Commonwealth achieve its target of net-zero greenhouse gas (“GHG”) emissions by 2050. Global Warming Solutions Act, St. 2008, c. 298 (“GWSA”); Executive Office of Energy and Environmental Affairs Determination of Statewide Emissions Limit for 2050 (April 22, 2020). The Department seeks to enable the Commonwealth to move into its clean energy future while simultaneously safeguarding ratepayer interests and maintaining affordability for customers; ensuring safe, reliable, and cost-effective natural gas service; minimizing the burden on low- and moderate-income households as the transition proceeds; and facilitating a just workforce and energy infrastructure transition.

In this proceeding, the Department reviewed eight potential decarbonization “pathways” to achieving the target of a 90 percent gross reduction in GHG emissions by 2050 as compared to 1990 levels, as well as interim GHG emissions reductions targets of 50 percent by 2030 and 75 percent by 2040. The decarbonization pathways are designed to reflect different futures for the LDCs and their customers, ranging from ongoing use of the LDCs’ distribution networks to 100-percent decommissioning of gas distribution infrastructure in the Commonwealth. The Department makes no findings as to a preferred pathway or technology; rather, our aim is to create and promote a regulatory framework that is flexible, protects consumers, promotes equity, and provides for fair consideration of the current and future technologies and commercial applications required to meet the Commonwealth’s clean energy objectives.

The Department considered six regulatory design recommendations intended to facilitate the Commonwealth’s transition: (1) support customer adoption of and conversion to electrified and decarbonized heating technologies; (2) blend renewable gas supply into gas-resource portfolios; (3) pilot and deploy innovative electrification and decarbonized technologies; (4) manage gas embedded infrastructure investments and cost recovery; (5) evaluate and enable customer affordability; and (6) develop LDC transition plans and chart future progress. The Department makes specific findings about each of these regulatory design recommendations as detailed in the Order.

As to supporting customer adoption of and conversion to electrified and decarbonized heating technologies, the Department finds that to achieve the Commonwealth’s climate targets, there must be a significant increase in the use of electrified and decarbonized heating technologies. The Department and LDCs can play a pivotal role by enhancing incentives and expanding the Mass Save energy efficiency programs to facilitate customer use of heat pumps. The Department also addresses the critical need to minimize costs for customers, including through pursuit of outside funding sources, and prioritizing workforce development to enable a just transition framework for gas industry workers as well as customers.

The Department rejects the recommendation to change its current gas supply procurement policy to support the addition of renewable natural gas (“RNG”) to LDC supply portfolios due to concerns regarding the costs and availability of RNG as well as its uncertain

status as zero-emissions fuel. The Department does support the option for customers to be able to purchase RNG from their LDC or a supplier at full cost to the customer.

Given the critical importance of significantly decarbonizing the heating sector, the Department considered the proposal that the LDCs pilot and deploy the following four technologies: (1) networked geothermal; (2) targeted electrification; (3) hybrid heating systems; and (4) renewable hydrogen. As detailed in the Order, the Department views networked geothermal projects as those with the most potential to reduce GHG emissions, and expresses support for targeted electrification as well.

The Department seeks to dissuade gas customer expansion and to align rate design with the Commonwealth's climate objectives. To achieve this, the Department instructs gas utilities to revise their per-customer revenue decoupling mechanism to a decoupling approach based on total revenues. Removing the incentive to add new customers aligns the LDCs' rate design with climate objectives and GHG emissions reductions targets. The Department finds it must examine the issue of depreciation, *i.e.*, the period of time over which a capital investment is recovered, and stranded assets. As an initial step, the Department directs all LDCs to conduct a comprehensive review that includes a forecast of the potential magnitude of stranded investments, and to identify the impacts of accelerated depreciation proposals, as well as potential alternatives to accelerated depreciation.

The Department finds that consideration of non-gas pipeline alternatives ("NPAs"), defined broadly to include electrification, thermal networked systems, targeted energy efficiency and demand response, and behavior change and market transformation, is necessary to minimize investments in the gas pipeline system that may be stranded costs in the future as decarbonization measures are implemented. Going forward, the Department states that as part of future cost recovery proposals, LDCs will bear the burden of demonstrating that NPAs were adequately considered and found to be non-viable or cost prohibitive to receive full cost recovery.

The Department agrees with suggestions that the standards for investments to serve new customers be examined. The Department therefore directs the LDCs to begin reviewing existing tariffs, policies, and practices related to new service connections to determine: (1) the number of *de facto* free extension allowances; (2) whether current models and policies accurately reflect the anticipated income and timeframe over which the capital investments will be recovered; and (3) whether existing state policies are inconsistent with current practices by incentivizing new customers to join the gas distribution system and allowing LDCs to extend their systems through plant additions. Further, in reviewing future applications for new service, the Department will examine the appropriateness of the existing standard—that there be no adverse impacts on existing natural gas customers—in the context of a broader climate mandate.

The Department observes that there are numerous concerns regarding affordability for customers, including the upfront costs required for customers to convert appliances and heating systems from natural gas to electricity, and also higher rates for customers who remain on the system. Cost shifting between migrating and non-migrating customers and

between rate classes, and potential disproportionate impacts on low-income customers and customers from environmental justice populations, present equity challenges as well.

Finally, the Department finds that the clean energy transition will require coordinated planning between LDCs and electric distribution companies, monitoring progress through LDC reporting, and aligning existing Department practices with climate targets. To that end, the Department orders LDCs to submit individual Climate Compliance Plans to the Department every five years beginning in 2025, and to propose climate compliance performance metrics in their upcoming performance-based regulation filings, ensuring a proactive approach to achieving climate targets.