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accelerating the transition to our clean energy future

March 1, 2023

Chair Pam Marsh
House Committee on Climate, Energy, and Environment
Oregon State Capitol
900 Court St. NE
Salem Oregon 97301

Re: Strong Support for HB 3152 and -1 Amendment

Chair Marsh and members of the Committee,

Climate Solutions is a regional non-profit working to accelerate clean energy solutions to the climate crisis. **We strongly support and urge you to vote yes on HB 3152 and the -1 amendment to protect residential gas utility customers.**

HB 3152 with the -1 amendment would do two important things: 1) empower the Oregon Public Utility Commission (OPUC) to continue in its work to ensure utilities and the overall investor-owned utility system are on track to meet the state's climate goals and 2) end the practice of charging existing residential utility customers for incentivizing new gas lines (i.e., line extension allowances) and incentives for new gas appliances and devices (e.g., gas furnaces and fireplaces).

Importantly, this bill would neither change the fundamental mandate of the OPUC nor prevent anyone from choosing to build with gas or buy new gas appliances. This bill does not take away anyone's energy choice, but it does change who pays for it. Oregonians will still have the choice to install gas furnaces, stoves, and fireplaces. Gas companies can still choose to incentivize gas line extensions and gas appliances. The companies would simply not be able to charge existing customers for these subsidies or incentives. At a baseline, HB 3152 with the proposed -1 amendment **helps to shift the financial risk** of subsidizing gas system expansion and incentivizing new gas appliances to gas company shareholders, rather than their customers who will not see the benefits of those incentives. This would protect existing gas customers – who are captive customers without control over what is put into their bills and many of whom do not have the choice to leave the system – from the risk of stranded fossil fuel costs.[1]

[1] See RMI, Overextended: It's Time to Rethink Subsidized Gas Line Extensions (2021) at https://rmi.org/insight/its-time-to-rethink-subsidized-gas-line-extensions/; See also Brattle Group, The Future of Gas Utilities Series: Transitioning Gas Utilities to a Decarbonized Future (2021) at https://www.brattle.com/wp-content/uploads/2021/08/The-Future-of-Gas-Utilities-Series_Part-1.pdf.

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Background

With the adoption of the 100% Clean Energy Targets bill (HB 2021) and the Climate Protection Program, among other policies, Oregon is beginning a necessary transition to a clean energy system with strong requirements for our utilities to reduce greenhouse gas emissions. Due to these policy drivers and broader market trends – including the recently adopted Inflation Reduction Act, which will provide billions of dollars of incentives for efficient, electric appliances – more and more Oregonians will replace their fossil gas appliances with electric alternatives in the coming years. While those households upgrading to higher-efficiency electric appliances will save money on their energy bills, these projected consumer adoption rates mean huge reductions in gas demand and fewer gas customers to spread the fixed costs of an aging system. This poses significant risks of stranded assets to gas customers left on the system. The Brattle Group estimates that nationwide, our distribution gas system poses as much as **$180 billion in stranded asset risks**.[2] Without policy intervention, the risk of stranded assets will continue to grow, and those with the least means of shouldering that risk, including lower-income households and renters, will be on the hook for them.

Role of the OPUC in Climate and Customer Protection

The Oregon Public Utilities Commission (OPUC) plays a critical role in achieving Oregon's climate goals and in many ways has already been a driver of climate progress in the state. This bill would not disrupt OPUC's progress on implementing HB 2021 or CPP requirements. **HB 3152 with the -1 amendment would empower the OPUC to continue its work that is already underway to ensure that all regulated utilities meet Oregon's greenhouse gas reduction requirements.**

We are grateful to the OPUC Commissioners and Staff for diving into big questions about how best to ensure utilities meet their climate requirements, including all of their work so far to implement HB 2021 and the Climate Protection Program. We also strongly believe that more must be done in the coming years to ensure this transition happens equitably and with the least risks to ratepayers, especially lower-income gas customers and renters who do not have access to capital or options to choose to electrify as quickly as higher-income homeowners.

In response to EO 20-04 and stakeholder requests, the OPUC initiated a "Natural Gas Fact-finding Investigation" (UM 2178). In this proceeding, also known as the "Future of Gas" proceeding, we at Climate Solutions worked in partnership with more than 30 other climate, environmental, and energy justice organizations.[3] We raised significant concerns about the risks

[2] See Brattle Group, The Future of Gas Utilities Series: Transitioning Gas Utilities to a Decarbonized Future (2021) at https://www.brattle.com/wp-content/uploads/2021/08/The-Future-of-Gas-Utilities-Series_Part-1.pdf
[3]

of continued approval of gas line extension allowances and subsidies for gas appliances, in large part because of the risk they pose to low-income customers, environmental justice communities, and renters. OPUC Staff highlighted similar concerns in their final report to the Commission:

> "The primary reason that NW Natural's current LEA [Line Extension Allowance] is problematic is that it fails to take into account any of the costs that are brought to NW Natural's system from new customers associated with greenhouse gas emission abatement obligations placed on the company under the CPP [Climate Protection Program]. As shown in this case, those costs could be significant. In fact, the record demonstrates that those costs, when accurately accounted for, could result in no or negligible economic benefit being brought to the existing system from the addition of new customers."[4]

We brought this issue up again in partnership with six other environmental and climate justice organizations in NW Natural's most recent general rate case. We argued that instead of charging ratepayers for these incentives, public dollars and ratepayer dollars should go toward clean energy solutions that help meet our state's climate policy requirements and energy efficiency solutions that help meaningfully reduce lower-income and environmental justice communities' energy bills. In response to our and others' arguments, the OPUC decided to cut NW Natural's line extension allowance by approximately half over the coming years. This decision, though meaningful, only applies to NW Natural and not the other investor-owned gas utilities in the state, and ultimately is not enough to mitigate the risk to ratepayers that these LEAs pose to existing ratepayers. In fact, after a thorough investigation, California has decided to phase out gas LEAs completely.[5] Many other states have made similar changes. It is important that Oregon follows suit.

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[4] See Public Utility Commission, In the Matter of NW Natural Gas Company, dba NW Natural, Request for a General Rate Revision, Order No. 22- 388 at 48 (October 24, 2022) (footnotes omitted).

[5] "In 2020, the California Energy Commission published a study evaluating decarbonization scenarios to achieve the state's mid-century GHG reduction targets, with a focus on identifying and evaluating impacts to gas customers and the gas system as a whole. The study concluded that building electrification represented the least-cost strategy for reducing emissions from the natural gas sector, but cautioned that absent policy intervention, the cost savings from electrification would likely accrue to households that can afford to electrify, and could cause costs to increase for low-income gas customers. [. . .] Recognizing that residential customers pay most of the fixed costs to maintain and operate the gas distribution system, the study projected that the reduction in gas customers resulting from electrification would cause those fixed costs to be shared by a smaller number of customers. **Lower-income customers that cannot afford to electrify could be forced to shoulder a disproportionate share of these fixed system costs, in addition to higher gas rates.** The study concluded that a well-managed transition from gas to electricity would help mitigate these impacts, while also supporting the financial viability of gas utilities to ensure customers continue to receive safe and reliable service at just and reasonable rates." See ODOE, 2022 Biennial Energy Report at 448: https://www.oregon.gov/energy/Data-and-Reports/Documents/2022-Biennial-Energy-Report.pdf (emphasis added and footnotes omitted).

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Existing gas customers in Oregon have been charged tens of millions of dollars per year to subsidize new customers being hooked up to the system and millions more on incentivizing new gas appliances through state energy efficiency programs. This money would have been better spent on high-efficiency electric alternatives and other critical energy-efficiency solutions such as weatherization for lower-income households.

High-efficiency electric appliances such as electric **heat pumps are commercially available, more efficient, and provide significant GHG reductions** compared to gas space heating alternatives. Indeed, The U.S. Environmental Protection Agency recently decided that gas appliances no longer fit into its "most efficient" category under its Energy Star program.[6] In Oregon, a heat pump installed in 2022 would produce well over 70% fewer carbon emissions over its 15-year lifetime than a "high efficiency" gas furnace would.[7] Investing in these more-efficient appliances at the point of replacement, while sometimes more expensive in upfront costs, will save utility customers money over time in reduced energy bills.[8] To reap these long-term savings benefits, energy efficiency incentives should be focused on helping to cover these upfront costs for low- and moderate-income customers, not on new gas appliances that would lock in further climate pollution and financial risk for decades to come.[9]

Finally, HB 3152 with the -1 amendment would send a clear signal to Oregonians that the legislature is taking climate seriously, expects continued leadership from the OPUC on greenhouse gas emissions reductions, and wants to protect low-income and other vulnerable ratepayers from financial risks related to continued gas system expansion – all while maintaining flexibility and consistency for the OPUC in doing so.

We urge you to vote yes on HB 3152 with the -1 amendment.

Sincerely,

Greer Ryan
Clean Buildings Policy Manager
Climate Solutions

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[6] See Justin Sullivan, Gas appliances are no longer eligible for Energy Star's top rating, Grist, Oct. 1, 2021, available at https://grist.org/energy/natural-gas-appliances-not-eligible-for-energy-star-top-rating/.
[7] See Coalition/700, Stewart/12 at https://edocs.puc.state.or.us/efdocs/HTB/ug435htb173818.pdf.
[8] https://rmi.org/insight/the-economics-of-electrifying-buildings/
[9] See Center for American Progress at https://www.americanprogress.org/article/decarbonize-households-america-needs-incentives-electric-appliances/.