



Oregon Citizens' Utility Board

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March 14, 2023

To: Chair Pam Marsh, Vice-Chair Emerson Levy, Vice-Chair Bobby Levy, and members of the House Committee on Climate, Energy, and Environment

From: Bob Jenks, Executive Director, Oregon Citizens' Utility Board (CUB)

Re: Support for HB 3152 – CUB's written testimony

The Oregon Citizens' Utility Board (CUB) is a statewide, membership-based 501(c)3 nonprofit consumer advocacy developed by citizens' initiative in 1984. CUB represents the interests of Oregon households by advocating for utility regulations and policies that protect your wallet. To date, we have saved Oregon ratepayers \$9.4 billion. HB 3152 will reduce and eliminate gas hookup subsidies that have outlasted their purpose and save Oregonians millions of dollars on their utility bills. We urge your support for HB 3152 with the -1 and -2 amendments. This written testimony reflects my presentation before this Committee on March 1, 2023.

HB 3152 is a customer protection bill. This bill aims to reduce the amount that current customers pay to subsidize expansion of the gas system. It will also empower utility regulators to ensure that utility investments are consistent with Oregon climate regulations. Utility investments have useful lives of 30, 40, 50 years or more. Keeping bills affordable requires making wise investments with an eye towards the future.

HB 3152 is not a gas ban. This bill does not mean people have to stop using gas. It does not prevent new buildings from hooking up to the gas system and it does not prevent people from purchasing new gas equipment, nor repairing or replacing gas equipment. This bill does not affect programs that weatherize homes to make them more efficient. And the -2 amendment ensures low-income energy efficiency programs remain in place. HB 3152 helps keep gas service affordable by reducing the amount Oregonians have to pay to expand the gas system.

This bill is about saving Oregonians money by reducing and eliminating subsidies that no longer make sense.

When a new home is built, it must connect to the gas system. There is a cost associated with this. A line extension allowance is a subsidy gas customers pay to hook up gas to new buildings. It used to be the case that the line extension allowance helped everyone on the system. But the utility subsidy is supposed to be limited to an amount that is low enough to ensure that the new customer pays back the other customers for the subsidized hookup costs and provides additional benefits.

Currently, this subsidy is about \$2400 per home. Utilities cover this cost and then recover it from ratepayers in their bills. With 10,000 to 12,000 new customers being added to the systems each year, gas utilities spend about \$25 million on these subsidies. But the cost to customers – the cost that shows up in people’s bills is about \$61 million each year. This is because utilities book this cost as a capital investment. And the utility spreads the collection of it over about 50 years. By financing it over decades utilities earn a profit on it each year and they charge customers a financing cost.

The problem isn’t just that the subsidies cost customers \$61 million. It’s also that existing customers do not benefit from expanding the gas system. The justification of these subsidies is that new customers benefit the system by sharing fixed costs and driving down costs to everyone. But that is no longer the case.

Because of DEQ’s Climate Protection Program, existing gas customers do not benefit from new customers being added to the system. DEQ established a baseline based on recent history and require gas utilities to reduce emissions by 50% from that baseline by 2035. This means that emissions from current customers, who like me are included in that baseline, have to be reduced by 50%. And the entirety of the new customers emissions must be offset in order to stay at that 50% requirement. This is going to be expensive for gas customers.

In recent years, gas costs have traditionally been between 2 and 4 dollars per MMBtu. NW Natural projects the cost of RNG from landfills, wastewater treatment plants and feedlots to be about \$12/MMBtu. But that RNG is limited. After that supply, more RNG can come from gasification of biomass, but it will cost more than \$18/MMBtu. Reducing 100% of emissions from new homes added to the system will require purchasing or developing RNG to offset their load and this will raise costs to the whole gas system and all the customers on it.

The other problem with these subsidies is that they take decades to pay off. Gas utilities capitalize them and spread them over 50 years (whereas a new home is normally financed over 30 years). If you pass HB 3152, we will end these subsidies, but it will still take until after 2070 to pay them off. This is well after the gas companies must have eliminated 90% of their emissions. If we don’t pass HB 3152, each year we will add a new layer and push out these costs further into the future. If people leave the gas system because heat pumps are better technology, or because the costs associated with RNG are too much, or because of concerns about climate change, then who will pay these costs? Customers who can’t afford to leave the system.

Oregon also provides subsidies for new appliances. The incentives are supposed to be about increasing energy efficiency, not simply replacing an appliance. An efficient gas furnace is defined as one that is at least 90% efficient: 90% of the energy content in the gas is converted to heat. The worst furnaces that are sold are 80% efficient. The real energy efficiency that we should be incentivizing and acquiring are appliances like 250% efficient heat pumps, which heats *and* cool your home. With a heat pump, you are using electricity to move heat, not to create it, so the heat or cooling added to your home is 250% of the energy content of the

electricity. We should incentivize efficiency and there are federal and state tax credits and rebates to help with this.

Another reason not to incentivize new gas appliances is the cost of operating them. In recent years gas has been in the \$2 to \$4 range. This is the experience of customers. But that 20-year furnace will still be running when the gas system must have its emissions reduced by more than 50%. This means that much of the gas supply will be higher cost RNG. When we offer incentives, we are sending the message that we are so confident that you should buy this piece of equipment that we are willing to provide you an incentive. But that equipment will be providing service in a much different cost environment than we have recently been in. Incentives should be provided for investments that lower people's costs, not raise their costs.

As a consumer advocate, I cannot support providing customers incentives that may mislead them about future costs. Notably, there is nothing stopping the gas utility's shareholders from providing the subsidies.

Finally, let me push back on the idea that somehow HB 3152 harms low-income customers. One of the critiques we are hearing is that these subsidies are needed so low-income customers can purchase a new furnace when one breaks. The -2 amendment guarantees low-income Oregonians keep their natural gas incentives. But making low-income customers dependent on natural gas for the next 20 years, when we know the price is going up, is not helpful. In fact, it is putting them at serious yet unnecessary financial risk.

As the cost of gas goes up, as there is more momentum around heat pumps for efficient heating and cooling, as we continue to adopt policies to address climate change, there is a very real risk that customers who can afford to leave the gas system will leave the gas system. Without protections like HB 3152, we will be asking Oregonians to pay to connect gas to \$500K+ homes, including those that do not and may not ever own a home and who could really use that money to pay their utility bills or buy food. Please support HB 3152 and help cut down Oregonians' utility bills. With high utility rate increases, inflation concerns, and uncertainty about the future of gas, take this opportunity to say that it doesn't make sense for Oregon gas customers to cut down on the cost of a new home.

Thank you for allowing me to present my perspective.

Sincerely,



Bob Jenks, Executive Director
Oregon Citizens' Utility Board

Encl: HB 3152 FAQ



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Frequently Asked Questions about the Utility Customer Protection bill (HB 3152)

- **How does HB 3152 protect residential customers?**
 - Oregon ratepayers currently pay appx. **\$61 million per year** to subsidize gas hookups for new homes (called “line extension allowances”). This breaks down to **each existing gas customers paying, on average, about \$75/year to subsidize new gas hookups.**
 - Oregon gas customers, including low- to moderate-income customers, are subsidizing new gas hookups and incentivizing new gas appliances like furnaces and fireplaces. The vast majority of which go into new construction—including for million-dollar homes and luxury condos. **That isn't fair.**
 - HB 3152 ends the practice of charging residential gas customers for these subsidies by 2026. The gas utilities and their shareholders, or others, can still provide these subsidies for new homes if they choose, but residential gas customers will no longer foot this bill.
 - Gas utilities in Oregon have recently **increased their rates 18-25%**. CUB's economic analysis predicts gas utility rates are going to keep increasing. HB 3152 helps reduce customer bills by removing these costs of these risky subsidies and incentives.
 - **HB 3152 would not apply to low-income energy efficiency programs** with adoption of a forthcoming amendment.
- **How does this affect commercial or industrial customers?**
 - It doesn't. Commercial or industrial customers' line extension allowances wouldn't change. It wouldn't shift any costs to these customers to pay for residential subsidies.
- **How much do Oregonians currently pay for new gas hookup subsidies?**
 - About 10,000-12,000 new homes connect to the gas system each year. Gas utilities can put the cost of the gas hookup subsidy (appx. \$2,400 per new gas connection) in the rates that customers pay. Using this number, Oregonians pay **\$25 million per year** for the gas hookup alone. But because the gas utility also includes financing and profit margins, the amount actually charged to customers in their bills is **appx. \$61 million per year**. Approximately 46% of the charge to customers for these subsidies (\$35 per customer per year of the total \$75) is actually going to the gas utility's profit margin.
 - Gas utility shareholders initially pay the costs to connect a new building to gas. Shareholders recover their investment in customer rates over 50 years, plus interest. **The numbers above do not include the 50+ year financing for those annual costs.**

- **Why are utility customers currently paying for these subsidies?**
 - Short answer: We shouldn't be.
 - Long answer: It used to be the case that these subsidies helped everyone on the system and would pay for themselves. With state and national greenhouse gas reductions requirements, this is no longer true.
 - The Oregon Public Utility Commission (PUC) recently reduced NW Natural's line extension allowance (i.e., the amount of these costs put in customer rates) to protect low-income customers. The PUC explained that there is "no or negligible economic benefit being brought to the existing system from the addition of new customers."

- **Can I still choose to use gas if I want to?**
 - **Yes!** This legislation shifts who pays for these subsidies and incentives after 2026. This bill is not a gas ban and every consumer's choice for energy would remain the same. HB 3152 says that utility ratepayers will no longer subsidize gas hookups in new buildings or incentives for gas appliances like furnaces and fireplaces.
 - If incentives make business sense, gas utilities and their shareholders can pay for the incentives for homes and luxury condos. If they don't, the housing developer will cover the cost and could include it in the price of the residence.

- **If the new homeowner has to pay for the gas hookup, will that add to Oregon's housing crisis?**
 - **No** it shouldn't. Oregon ratepayers are currently subsidizing approximately \$2,400 of the cost to add each new gas hookup to residential buildings. Last year, the average cost of building a new home in Oregon was \$340,580. That means the cost of a gas line extension allowance is only about 0.7% of this total construction cost. That percentage is even lower when the builder's profit and cost of the land is added. This is a drop in the bucket compared to the costs all residential ratepayers pay for hookups to new homes.

- **Does HB 3152 affect the ability of low-income customers to use incentives?**
 - With the anticipated amendment, incentives or subsidies delivered through low-income energy assistance programs or low income weatherization programs would **not** be affected at all. This includes programs such as Oregon Low Income Energy Efficiency (OLIEE) run through the CAP agencies.
 - Energy Trust of Oregon (ETO) incentives for cost-effective energy efficiency measures such as improving insulation and weatherizing windows and doors will not be affected.

- **Does HB 3152 harm Oregonians with low to moderate incomes?**
 - **No.** In fact, this bill does the opposite. It shields residential ratepayers from paying for costly, risky subsidies that no longer provide a benefit.
 - If people leave the gas system for more efficient electric HVAC systems (aka heat pumps), because the costs associated with renewable natural gas or synthetic gas are

too much, or because of concerns about climate change, it will be the families who can't afford to electrify who will be left paying all of the costs of the aging gas system.

- **Currently low to moderate income customers are subsidizing gas system expansion to million-dollar homes and luxury condos. That isn't fair.**
- **What is the reason for the gas subsidy that ratepayers pay? Does that reasoning still make sense today?**
 - Gas used to be a more affordable and more efficient way to heat your home. A modern furnace that burns gas was preferable to electric baseboard heating fueled by coal-generated electricity. Oregon incentivized gas appliances to help Oregon residents transition to the more affordable and more efficient heating system.
 - Today that has changed. While gas furnaces are 80-95% efficient, **an average heat pump electric system is 250-300% efficient.** And heat pumps can provide *both* heating and cooling.
 - Further, gas utilities in Oregon must reduce greenhouse gas emissions by 90% below 1990 emission levels by 2050. This transition will be expensive and gas utilities' plans to meet the emissions reduction goals are relying on future technology that is not commercially available nor viable.
 - **If ratepayers are going to pay the costs of incentives, then they should go to the most energy efficient systems which will provide the maximum reduction in their energy bills.**

Fast Facts: Line Extension Allowances (subsidies for new gas hookups)	
\$61 million per year	Approximate total amount that Oregon ratepayers pay to subsidize new gas hookups for new homes (called “line extension allowances”), including costs of financing and shareholder profits.
\$75 per year	Appx. average amount every gas customer pays in their bills for new gas hookup subsidies.
11%	Appx. how much of an Oregonian’s annual gas bill goes to paying for these subsidies.
\$2,400	Appx. amount gas utilities can currently subsidize for each new gas hookup, charging existing customers for through their bills
46%	Appx. how much of the total amount paid by ratepayers (\$61M) goes to shareholder profits (as profit margins earned by the gas utility), not to paying for the new hookup itself
0.7%	Appx. percentage of total construction cost of new home that makes up the current subsidy for a gas line extension allowance
2026	The first year these subsidies can no longer be charged to residential ratepayer bills.

Source: Estimates based on CUB’s analysis of historic customer growth.

Fast Facts: Relevant Incentive Programs
With the anticipated amendment, incentives or subsidies delivered through low-income energy assistance programs or low-income weatherization programs would not be affected at all. This includes programs such as Oregon Low Income Energy Efficiency (OLIEE) run through the CAP agencies.
ETO’s incentives for gas furnaces are only for income-qualified customers because these customers are installing less efficient equipment than market-rate customers.
Of all gas furnaces installed in 2022, about 30% were in existing homes and 70% were in new homes.
Most gas furnace installations are replacing failed equipment and not upgrading working equipment.
Energy Trust of Oregon (ETO) provides incentives for low- to moderate- income households for gas furnaces, fireplaces, and water heaters to existing single-family, manufactured, and small multifamily homes with 2-4 units. These will continue to be available with the anticipated amendment.
ETO incentives for cost-effective energy efficiency measures such as improving insulation and weatherizing windows and doors will not be affected.