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Accelerating an Equitable Transition Off Gas

Policy recommendations for Washington state for the 2024 legislative session.

Draft memo compiled by Emily Moore, Director, Climate and Energy program, Sightline Institute | July 2023

Washington boasts some of the most impressive climate pollution-cutting goals in the nation. Meeting those targets requires homes and businesses to transition off gas and onto clean electricity. But the state's gas utilities are expanding, prolonging the lifespan of the polluting gas system while obstructing decarbonization solutions. This puts Washington's climate commitments and gas customers at risk.

Sightline Institute recommends that Washington policymakers pursue **five objectives** to uphold our state's decarbonization promises:

1. Stop expanding the polluting gas system

Washington gas utilities expanded polluting infrastructure by adding ~33,000 new customers in 2021 and 2022 alone, taking the state backwards and contradicting their own public commitments to protecting the climate.[1]

- **Require WA gas utilities to end all new gas hookups by 2024.** The 2023 legislature considered this provision in HB 1589 for Puget Sound Energy (PSE) only. Policymakers should apply a 2024 deadline to all gas and combination utilities in the state to protect ratepayers from unfairly paying for corporations' stranded assets.

- **Eliminate or revise gas utilities' "obligation to serve."** Washington law requires gas utilities to extend the pipeline to any customer willing to pay regulated gas rates. This "obligation to serve" drives pipeline expansion and increases the risk of stranded assets. The 2023 legislature considered revising Washington utilities' obligation to serve through HB 1589 for PSE only. Policymakers should revise or eliminate this requirement for all gas companies. To protect consumers, utilities could be required to provide core energy needs like heating, instead of furnishing gas specifically.

Examples from other states taking steps to end gas system expansion: Massachusetts' 2023 Future of Clean Heat Bill (introduced); New York's 2022 Utility Thermal Energy Network and Jobs Act (passed, enacted).

[1] Source: FERC Form 2.

2. Stop wasting money replacing old pipes; Invest in clean energy infrastructure of the future

Investing in outdated gas infrastructure is throwing good money after bad. Instead, we should invest in the infrastructure of a cleaner, long-term future. Without policy or regulatory change, Washington gas utilities plan to spend **~$850 million to replace more than 500 miles of gas pipes** over the next decade.

- **Require gas utilities to *retire rather than replace* aging or inadequate gas infrastructure—and invest in more viable infrastructure for the long term.** The Washington Utilities and Transportation Commission (UTC) should require gas utilities to proactively identify pipes in their system that could be shut down in favor of electrification, rather than replaced. The UTC could revise rules for utilities' Pipeline Replacement Plans, change requirements in utilities' Integrated Resource Planning processes, or initiate new, separate gas system proceedings.

- **Require gas utilities to propose non-pipe alternatives (NPAs) for capacity constraints.** These alternatives, such as demand response programs and electrification, should be prioritized ahead of new pipes that are likely to become stranded assets.

Examples from other states to retire rather than replace expensive, outdated gas pipes—and to encourage more sustainable alternatives: Colorado Public Utilities Commission's (PUC) 2022 non-pipeline alternative rules; New York Public Service Commission's 2022 gas planning rules; California PUC staff's 2022 draft decommissioning framework.

3. Electrify whole neighborhoods to enable broader gas system pruning

Shrinking the gas system is virtually impossible with today's scattershot approach to home electrification. Instead, neighborhood-wide electrification would allow utilities to right-size gas systems, mitigating stranded asset risks for Washingtonians.

- **Require gas and electric utilities to pursue neighborhood electrification pilots.** Initial pilots make most sense in areas with aging gas pipes that would otherwise be replaced. Policymakers should consider allowing gas utilities to recover electrification investments from gas ratepayers to speed progress but take care not to inadvertently worsen the affordability risk for gas customers. Regulators could allow lower profit rates and shorter investment payback periods for neighborhood electrification than traditional gas pipeline replacement to protect gas ratepayers.

- **Target climate funding to specific, high-potential geographies.** Direct electrification funds from the Climate Commitment Act and/or Washington's share of the Inflation

Reduction Act to specific neighborhoods ripe for gas pipe retirements, while maintaining a focus on supporting low-income households to electrify.

Examples from other states to electrify whole neighborhoods and shrink the gas system: ConEdison's "whole building electrification" program in New York; PG&E's "zonal electrification" pilot in California.

4. Take ratepayers off the hook for utilities' imprudent spending on soon-to-be stranded assets

Utilities have invested billions in pipes that will need to be retired before their useful lifespan, creating a massive risk of stranded assets for ratepayers. For example, PSE's undepreciated assets ballooned by more than $1.6 billion between 2013 and 2021. Those least able to electrify—renters, low- and middle-income homeowners—are most in danger of footing the bill for these irresponsible investments.

- **Require gas and combination utilities to quantify their stranded asset risks.** This information will help policymakers understand how to allocate that risk fairly among ratepayers, utility shareholders, and the broader public.

- **Direct regulators to consider gas investments made after a certain date to be "imprudent."** Utility shareholders will have strong grounds to recover their unwise, polluting investments from ratepayers' wallets if regulators "recognize" the investments during utility planning processes. To counteract that risk, policymakers and regulators can declare that investments in gas pipes made after a certain date in Washington will not be recovered from ratepayers.

- **Explore financing mechanisms like securitization and accelerated depreciation.** These approaches would lower (but not eliminate) the risk of stranded assets.

Examples from other states where lawmakers are taking steps to manage utility liabilities and stranded assets: California PUC's ongoing Long Term Gas System Planning; California's 2017 Wildfires Act (analogous law allowing utilities to securitize debt from wildfires); Washington's 2019 Clean Energy Transformation Act (analogous law allowing mandating accelerated depreciation for coal-fired resources).

5. Get gas utilities into the climate solutions business and away from clean energy transition obstructionism

Faced with extinction from electrification, gas utilities are betting big on risky, expensive fuels with unproven carbon-reduction and environmental benefits, including hydrogen and renewable natural gas (RNG), all while obstructing climate progress. Allowing gas utilities to get into the decarbonization business could help but will require safeguards for customers and market competitors.

- **Prohibit the use of hydrogen for home heating, and limit RNG subsidies.** RNG and hydrogen fall short compared to electrification as a climate strategy in most cases. RNG is in short supply and, when leaked or combusted, creates harmful greenhouse gas emissions. Hydrogen blending intensifies safety risks and would require expensive replacement of gas pipes at high volumes. Legislators should be wary of some ideas in proposals like HB 1619, which gas companies supported in the 2023 legislative session. Legislators should also put additional constraints on existing laws to refocus the use of RNG and hydrogen to industrial sectors that have no other cost-effective decarbonization solutions.

- **Allow gas utilities to pilot selling clean thermal energy as regulated business lines.** Washington gas utilities are not allowed to sell anything other than gas as regulated business lines. Granting utilities more flexibility to sell clean heat instead, through GeoNetworks or district energy systems, could be a worthy alternative.

- **Allow other climate-friendly business innovations, but only with protections for ratepayers and competitors.** Some potential new gas business ventures do not meet traditional criteria for regulated utilities, such as rooftop solar or electric vehicle charging. Policymakers should balance regulatory innovation to speed climate progress, with protections for ratepayers and market competitors.

Examples from other states lifting barriers to gas utilities getting into the climate solutions business: Massachusetts' 2021 Act Creating a Next Generation Roadmap for Massachusetts Climate Policy; New York's 2022 Utility Thermal Energy Network and Jobs Act; Colorado's 2023 Thermal Energy Act; Vermont's 2023 Ratepayer Protection and Thermal Energy Network Act (introduced), Illinois' 2023 Thermal Energy Network and Jobs Act (introduced).