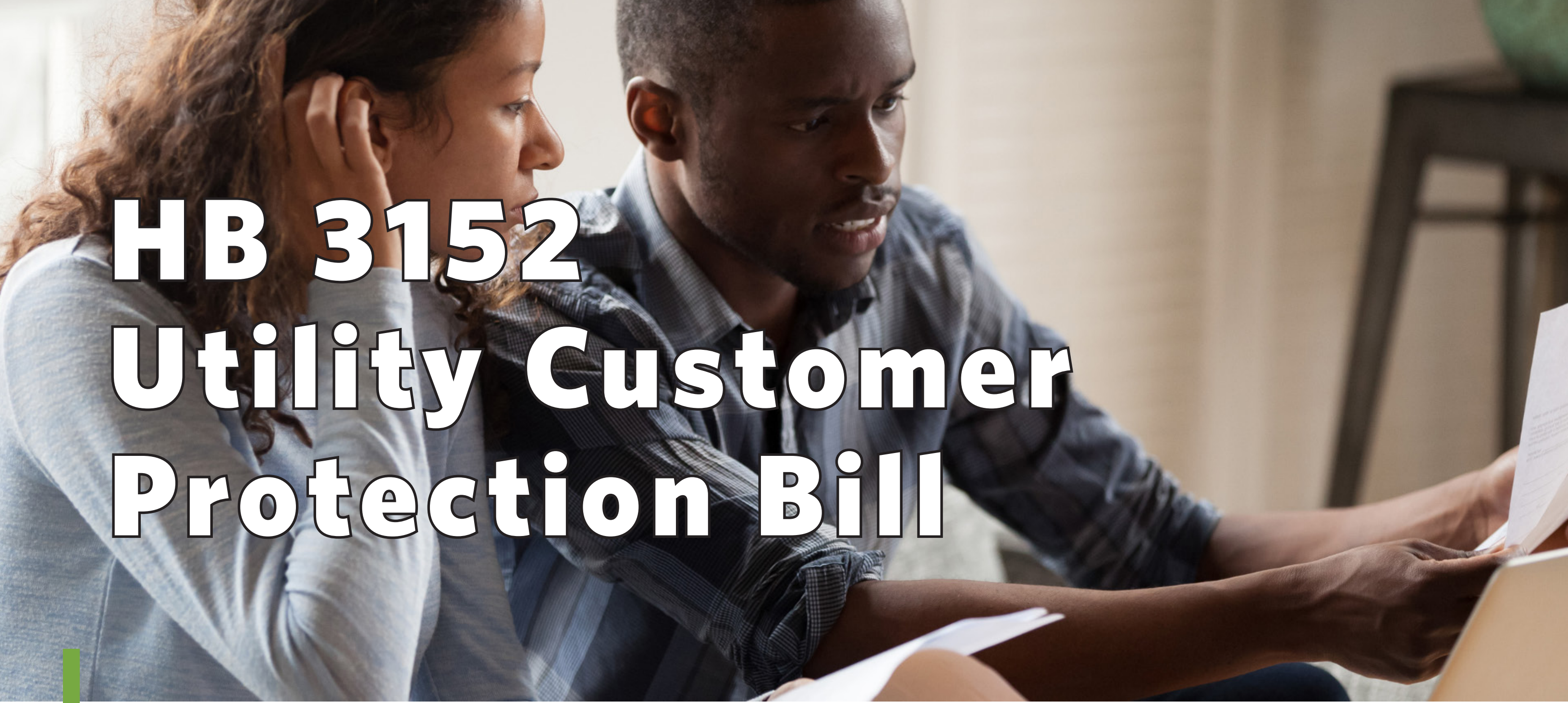

HB 3152 Utility Customer Protection Bill

Utility customers in Oregon should not be on the hook for subsidizing the expansion of the fossil fuel system during a climate emergency. This bill is about who pays for fossil fuel subsidies. HB 3152 cuts these unnecessary and harmful costs for fossil fuel subsidies from regular Oregonians' energy bills.

Current Problem

The Oregon Public Utilities Commission (PUC) has a critical role to play in achieving Oregon's climate goals. But there are structural issues and outdated policies that can hamper those efforts at times. For example, current gas utility customers in Oregon shoulder the costs and risks of paying huge subsidies for new gas pipeline hookups and new gas appliances for other customers. Gas utilities charge existing gas customers for these subsidies through their rates, meaning customers pay these costs in their gas bills every month. Meanwhile, the state's largest gas utility just increased rates by approximately 25%. This practice adds financial burden and puts these customers at risk (especially the lowest income gas customers) of covering the rising costs of maintaining an aging gas system, regulatory compliance costs, and potential future stranded assets as Oregon decarbonizes and replaces fossil fuels with clean energy.

The original reason that existing customers would pay for these subsidies was that those existing customers were expected to see a financial benefit from growing the gas system. However, given current market trends and regulations, it is no longer the case that these subsidies for gas system expansion are expected to pay off – and in fact, existing customers face significant risks of huge costs from continued gas system expansion. The PUC recently cut in half the amount of subsidies that NW Natural can charge to utility customers in their rates for new gas pipeline hookups, but other states are phasing out the practice of gas utilities passing on the costs of these subsidies altogether. It's time for Oregon to do the same.

Proposed Solution:

When you find yourself in a hole, the first rule is to stop digging. HB 3152 would prevent gas utilities from passing the costs of subsidies to expand the gas system onto existing customers in their bills starting in 2026. Instead, the gas companies and their investors would shoulder any financial costs and risks related to subsidizing the expansion of the gas system. This bill is not a gas ban and every consumer's choices for energy would remain the same. But it does change who pays for these ongoing subsidies.

HB 3152 will also empower the PUC to take a proactive role in ensuring utilities meet our climate goals while protecting existing utility customers. HB 3152 directs the PUC to consider state greenhouse gas requirements in its decision-making, codifying their critical role as regulators of gas and electric utilities in the state's equitable transition from fossil fuels to clean energy.

Oregon Public Utility Commission (PUC) released its final report in its "Natural Gas Fact-finding Investigation" docket (UM 2178, also called "Future of Gas" docket). In the report, PUC staff highlighted the need to protect low-income customers. It explained that the subsidies for new gas pipeline hookups, known as line extension allowances (LEA), may not provide an economic benefit to existing customers because these existing customers also have to pay for 100% decarbonization of each new customer's gas load.

> "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."

Oregon Department of Energy's 2022 Biennial Energy Report provides the following summary of consumer costs and equity issues related to decarbonizing the gas sector, and the need for protections for low-income customers who cannot easily afford to leave the gas system:

> "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. The study estimated that demand for natural gas will likely decline in California over time, and declining demand would put upward pressure on gas prices. This decline in demand and associated cost increase would create a feedback loop in which rising gas prices make electrification a more appealing and economical option for consumers who can afford to switch, causing gas demand to drop and prices to increase even further. 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."

Greer Ryan, Climate Solutions, greer.ryan@climatesolutions.org, (503) 548-2540